

Office of the Legislative Auditor

State of Montana



Report to the Legislature

June 1992

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 1991

PLEASE RETURN

Montana Single Audit Report

This document is prepared in accordance with the federal Single Audit Act of 1984 and OMB Circular A-128. It contains the auditor's report on Montana's Schedule of Federal Financial Assistance for the two years ended June 30, 1991, as well as Reports on Internal Controls and Compliance, a Schedule of Questioned Costs, and Federal Issues. The Montana Comprehensive Annual Financial Report for each of the two fiscal years ended June 30, 1990 and 1991, and our reports thereon have been separately issued.

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Office of Budget and Program Planning
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Helena, Montana 59620
Phone (406) 444-3616



FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620
Phone (406) 444-3122

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Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

Montana Single Audit Report

All financial-compliance audit staff were involved in the individual agency audits and statewide audits supporting this audit report. Staff involved in incorporating results from individual agency audits and statewide audits into this audit report include: Pearl M. Allen, Brenda Bokovoy, Rebecca Dorwart, Cindy S. Jorgenson, Wayne Kedish, Vickie Rauser, and Kris Wilkinson.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

June 1992

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the State of Montana for the two years ended June 30, 1991. This document contains the independent auditor's report on the State of Montana's Schedule of Federal Financial Assistance for the two years ended June 30, 1991. It also contains reports on the State of Montana's internal controls and compliance with federal and state laws and regulations. The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget Circular A-128.

The review disclosed certain questioned costs and deficiencies, which are summarized in the Schedule of Questioned Costs on page 26 and the Federal Issues section of this document. Most of the federal findings in this document were included in previously issued agency audit reports. Findings related to the Office of Public Instruction and the Department of Health and Environmental Sciences have been updated for information obtained after the findings were originally issued or are new findings. Agency management has responded to the audit findings, and the responses are included in the report following each issue and recommendation. Unless satisfactorily implemented or no longer applicable, prior findings affecting federal programs are included in the Federal Issues section of this document. Generally, a prior audit finding is identified as such in the narrative of the finding.

Issues addressing concerns related to U.S. Department of Health and Human Services (HHS) programs refer to Catalog of Federal Domestic Assistance (CFDA) numbers beginning with 13; e.g., 13.658. The December 1990 update to the catalog stated the HHS CFDA numbers were changed to a 93.XXX configuration. This is explained further in note 3 on page 14.

We issued separate reports on the State of Montana's general purpose financial statements for fiscal years 1989-90 and 1990-91. These reports are included in the Montana Comprehensive Annual Financial Report issued under separate cover for each of the two fiscal years ended June 30, 1990 and 1991, and are available upon request.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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Report on and Schedule of Federal Financial Assistance



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

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Operations and EDP Audit
JAMES GILLET
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT
LEGAL COUNSEL:
JOHN W. NORTHEY

**REPORT ON SUPPLEMENTARY INFORMATION -
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

Independent Auditor's Report

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana for each of the two years ended June 30, 1990 and 1991, and have issued our reports thereon dated October 31, 1990, and November 4, 1991, respectively. These general purpose financial statements are the responsibility of the State of Montana management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements of the State of Montana taken as a whole. The accompanying schedule of federal financial assistance on pages 2 through 15 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

April 30, 1992



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

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Respectfully submitted,

A handwritten signature in cursive script, reading "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

April 30, 1992

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991

CFDA# FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
<u>Department of Agriculture</u>		
<u>Agricultural Research Service</u>		
10.001 Agricultural Research-Basic and Applied Research	\$ 216,321	\$ 174,368
<u>Animal and Plant Health Inspection Service</u>		
10.025 Plant and Animal Disease and Pest Control	332,604	409,763
<u>Agricultural Stabilization and Conservation Service</u>		
10.058 Wheat Production Stabilization	20,824	1,084
10.063 Agricultural Conservation Program	8,034	9,029
10.064 Forestry Incentives Program	2,260	2,720
10.069 Conservation Reserve Program	133	0
<u>Agricultural Marketing Service</u>		
10.156 Federal-State Marketing Improvement Program	2,963	19,317
<u>Cooperative State Research Service</u>		
10.200 Grants for Agricultural Research, Special Research Grants	394,530	339,174
10.202 Cooperative Forestry Research	418,031	385,018
10.203 Payments to Agricultural Experiment Stations Under Hatch Act	1,706,133	1,842,245
10.205 Payments to 1890 Land- Grant Colleges and Tuskegee University	117	116,004
10.207 Animal Health and Disease Research	26,308	154,464
10.210 Food and Agricultural Sciences National Needs Graduate Fellowship Grants	49,298	50,000
<u>Economic Research Service</u>		
10.250 Agricultural and Rural Economic Research	12,760	11,714
<u>Farmers Home Administration</u>		
10.435 Agricultural Loan Mediation Program	30,538	38,023
<u>Food Safety and Inspection Service</u>		
10.477 Meat and Poultry Inspection	30,000	30,000
<u>Extension Service</u>		
10.500 Cooperative Extension Service	2,766,474	2,658,965
<u>Food and Nutrition Service</u>		
10.550 Food Distribution	7,186,872	7,233,079
10.551 Food Stamps	39,347,072	44,855,372
10.553 School Breakfast Program	879,665	1,001,132
10.555 National School Lunch Program	9,243,453	10,306,571
10.556 Special Milk Program for Children	57,926	67,053
10.557 Special Supplemental Food Program for Women, Infants, and Children	7,404,039	9,173,076
10.558 Child Care Food Program	4,098,960	5,026,753
10.559 Summer Food Service Program for Children	218,163	271,424
10.560 State Administrative Expenses for Child Nutrition	227,897	249,259
10.561 State Administrative Matching Grants for Food Stamp Program	5,515,890	7,512,886
10.564 Nutrition Education and Training Program	49,094	51,918
10.567 Food Distribution Programs on Indian Reservations	1,027,762	1,281,853
10.568 Temporary Emergency Food Assistance (Administrative Costs)	217,735	200,184
10.599 Other Miscellaneous Non-Major Grants	10,669	0
<u>Foreign Agricultural Service</u>		
10.601 Market Promotion Program	1,626	10,111
<u>Forest Service</u>		
10.652 Forestry Research	44,930	405,461
10.664 Cooperative Forestry Assistance	264,876	399,839

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
=====			
10.665	Schools and Roads-Grants to States	\$ 7,755,480	\$ 11,384,856
10.699	Other Miscellaneous Non-Major Grants	356,403	393,658
	<u>Soil Conservation Service</u>		
10.901	Resource Conservation and Development	34,932	57,708
10.903	Soil Survey	18,937	18,519
10.904	Watershed Protection and Flood Prevention	23,000	20,000
	<u>National Agricultural Statistics Service</u>		
10.950	Agricultural Statistics Reports	11,980	8,000
	<u>Miscellaneous</u>		
10.999	Other Miscellaneous Non-Major Grants	1,845,012	1,696,400
	TOTAL FOR AGENCY	\$ 91,859,701	\$ 107,867,000
<u>Department of Commerce</u>			
	<u>Economic Development Administration</u>		
11.303	Economic Development-Technical Assistance	\$ 142,674	\$ 102,536
11.305	Economic Development-State and Local Economic Development Planning	66,214	0
11.307	Special Economic Development and Adjustment Assistance Program	0	606,060
	<u>National Oceanic and Atmospheric Administration</u>		
11.417	Sea Grant Support	17,986	0
11.499	Other Miscellaneous Non-Major Grants	0	1,750
	<u>National Telecommunications and Information Administration</u>		
11.550	Public Telecommunications Facilities-Construction and Planning	29,078	1,453
	<u>National Institute for Standards and Technology</u>		
11.699	Other Miscellaneous Non-Major Grants	18,195	0
	<u>Technology Administration</u>		
11.999	Other Miscellaneous Non-Major Grants	10,174	15,157
	TOTAL FOR AGENCY	\$ 284,321	\$ 726,956
<u>Department of Defense</u>			
	<u>Defense Logistics Agency</u>		
12.002	Procurement Technical Assistance for Business Firms	\$ 45,364	\$ 91,208
	<u>Department of the Army, Office of the Chief of Engineers</u>		
12.110	Planning Assistance to States	3,478	7,361
	<u>Miscellaneous</u>		
12.999	Other Miscellaneous Non-Major Grants	538,058	473,846
	TOTAL FOR AGENCY	\$ 586,900	\$ 572,415
<u>Department of Housing and Urban Development</u>			
	<u>Housing - Federal Housing Commissioner</u>		
14.156	Lower Income Housing Assistance Program	\$ 10,726,969	\$ 10,915,793
	<u>Community Planning and Development</u>		
14.228	Community Development Block Grant/State's Program	5,281,690	6,686,584
	<u>Office of Fair Housing and Equal Opportunity</u>		
14.401	Fair Housing Assistance Program-State and Local	48,188	25,378

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA# FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
<u>Miscellaneous</u>		
14.999 Other Miscellaneous Non-Major Grants	\$ 72,219	\$ 68,201
	TOTAL FOR AGENCY \$ 16,129,066	\$ 17,695,956
<u>Department of the Interior</u>		
<u>Bureau of Indian Affairs</u>		
15.130 Indian Education-Assistance to Schools	\$ 0	\$ 235,774
15.143 Training and Technical Assistance-Indian Tribal Governments	15,998	53,637
15.199 Other Miscellaneous Non-Major Grants	62,609	42,119
<u>Bureau of Land Management</u>		
15.219 Wildlife Habitat Management Technical Assistance	7,072	51,446
15.221 Cooperative Agreements for Research in Public Lands Management	69,599	62,840
15.999 Mineral Leasing	20,240,644	21,928,394
<u>Office of Surface Mining Reclamation and Enforcement</u>		
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	700,095	812,456
15.252 Abandoned Mine Land Reclamation (AMLR) Program	8,109,345	6,083,581
15.299 Other Miscellaneous Non-Major Grants	375,732	326,574
<u>Bureau of Mines</u>		
15.308 Grants for Mining and Mineral Resources and Research Institutes	255,476	95,389
<u>Bureau of Reclamation</u>		
15.502 Irrigation Systems Rehabilitation and Betterment	32,912	144,145
15.503 Small Reclamation Projects	77,848	95,548
15.599 Other Miscellaneous Non-Major Grants	21,000	(130)
<u>U.S. Fish and Wildlife Service</u>		
15.604 Fishery Research-Information	22,740	14,884
15.605 Sport Fish Restoration	4,367,575	3,755,465
15.610 Wildlife Research Information	65,314	59,401
15.611 Wildlife Restoration	2,954,353	3,078,555
15.612 Endangered Species Conservation	116,373	149,923
15.699 Other Miscellaneous Non-Major Grants	228,063	116,534
<u>Geological Survey</u>		
15.805 Assistance to State Water Resources Research Institutes	0	15,683
15.806 National Water Resources Research Program	49,092	17,040
15.808 Geological Survey-Research and Data Acquisition	254,864	97,451
15.899 Other Miscellaneous Non-Major Grants	1,175	3,498
<u>National Park Service</u>		
15.904 Historic Preservation Fund Grants-In-Aid	391,596	403,447
15.915 Technical Preservation Services	2,637	499
15.916 Outdoor Recreation-Acquisition, Development and Planning	186,768	285,946
15.999 Other Miscellaneous Non-Major Grants	671,860	526,190
	TOTAL FOR AGENCY \$ 39,280,740	\$ 38,456,289
<u>Department of Justice</u>		
<u>Drug Enforcement Administration</u>		
16.001 Law Enforcement Assistance-Narcotics & Dangerous Drugs-Laboratory Analysis	\$ 741	\$ 16,318
16.099 Other Miscellaneous Non-Major Grants	0	181,208
<u>Office of Juvenile Justice and Delinquency Prevention</u>		
16.540 Juvenile Justice and Delinquency Prevention-Allocation to States	413,018	328,731

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
<hr/>			
	<u>Bureau of Justice Statistics</u>		
16.550	Criminal Justice Statistics Development	\$ 32,728	\$ 47,066
	<u>Office of Justice Programs</u>		
16.575	Crime Victim Assistance	263,127	329,165
16.576	Crime Victim Compensation	118,000	0
16.579	Drug Control and System Improvement-Formula Grant	896,757	2,090,293
16.580	Drug Control and System Improvement-Discretionary Grant	16,207	0
16.581	Drug Law Enforcement Program-Prison Capacity	46,680	1,103
16.582	Crime Victim Assistance/Discretionary Grants	180,500	61,950
	<u>Miscellaneous</u>		
16.999	Other Miscellaneous Non-Major Grants	247,324	142,699
	TOTAL FOR AGENCY	\$ 2,215,082	\$ 3,198,533
<u>Department of Labor</u>			
	<u>Bureau of Labor Statistics</u>		
17.002	Labor Force Statistics	\$ 771,762	\$ 597,750
	<u>Employment and Training Administration</u>		
17.203	Labor Certification for Alien Workers	147,985	126,208
17.207	Employment Service	5,572,374	5,839,787
17.225	Unemployment Insurance	8,741,533	8,637,018
17.246	Employment and Training Assistance-Dislocated Workers	1,488,235	1,980,611
17.248	Employment and Training Research and Development Projects	40,000	38,441
17.249	Employment Services and Job Training-Pilot and Demonstration Programs	674	0
17.250	Job Training Partnership Act	11,186,731	10,644,130
	<u>Occupational Safety and Health Administration</u>		
17.500	Occupational Safety and Health	141,234	154,293
	<u>Mine Safety and Health Administration</u>		
17.600	Mine Health and Safety Grants	70,929	54,820
	<u>Office of the Assistant Secretary for Veterans' Employment</u>		
17.801	Disabled Veterans Outreach Program	267,764	277,710
17.802	Veterans Employment Program	36,157	58,045
17.804	Local Veterans Employment Representative Program	600,329	542,984
	<u>Miscellaneous</u>		
17.999	Other Miscellaneous Non-Major Grants	104,551	107,769
	TOTAL FOR AGENCY	\$ 29,170,258	\$ 29,059,566
<u>Department of State</u>			
	<u>Bureau of Personnel</u>		
19.202	Special Domestic Assignments	\$ 0	\$ 22,718
	TOTAL FOR AGENCY	\$ 0	\$ 22,718
<u>Department of Transportation</u>			
	<u>United States Coast Guard</u>		
20.005	Boating Safety Financial Assistance	\$ 220,231	\$ 267,554
	<u>Federal Aviation Administration</u>		
20.106	Airport Improvement Program	0	57,064

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991

(Continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
<u>Federal Highway Administration</u>			
20.205	Highway Planning and Construction	\$ 97,097,925	\$106,276,533
20.217	Motor Carrier Safety	395,383	4,617
20.218	Motor Carrier Safety Assistance	488,146	557,685
20.299	Other Miscellaneous Non-Major Grants	746	3,062
<u>Federal Railroad Administration</u>			
20.308	Local Rail Service Assistance	82,621	24,498
<u>Urban Mass Transportation Administration</u>			
20.500	Urban Mass Transportation Capital Improvement Grants	0	212,553
20.505	Urban Mass Transportation Technical Studies Grants	144,623	122,787
20.507	Urban Mass Transportation Capital and Operating Assistance Formula Grants	0	484,900
20.509	Public Transportation for Nonurbanized Areas	471,187	0
20.512	Urban Mass Transportation Technical Assistance	0	60,003
20.513	Capital Assistance Program for Elderly and Handicapped Persons	213,743	0
<u>National Highway Traffic Safety Administration</u>			
20.600	State and Community Highway Safety	1,135,897	1,026,841
<u>Research and Special Programs Administration</u>			
20.700	Pipeline Safety	21,275	34,342
<u>Miscellaneous</u>			
20.999	Other Miscellaneous Non-Major Grants	489	0
		<u>TOTAL FOR AGENCY</u>	<u>\$100,272,266 \$109,132,439</u>
<u>Equal Employment Opportunity Commission</u>			
30.002	Employment Discrimination-State & Local Anti-Discrimination Agency Contracts	\$ 101,625	\$ 126,326
		<u>TOTAL FOR AGENCY</u>	<u>\$ 101,625 \$ 126,326</u>
<u>General Services Administration</u>			
39.003	Donation of Federal Surplus Personal Property	\$ 1,594,414	\$ 3,748,114
		<u>TOTAL FOR AGENCY</u>	<u>\$ 1,594,414 \$ 3,748,114</u>
<u>National Aeronautics and Space Administration</u>			
43.001	Aerospace Education Services Project	\$ 0	\$ 24,407
43.002	Technology Utilization	182,315	120,641
43.099	Other Miscellaneous Non-Major Grants	147,443	233,893
		<u>TOTAL FOR AGENCY</u>	<u>\$ 329,758 \$ 378,941</u>
<u>National Foundation on the Arts and the Humanities</u>			
<u>National Endowment for the Arts</u>			
45.003	Promotion of the Arts-Arts in Education	\$ 26,200	\$ 26,800
45.004	Promotion of the Arts-Literature	0	1,829
45.007	Promotion of the Arts-State Programs	330,678	361,322
45.009	Promotion of the Arts-Visual Arts	2,000	0
45.023	Promotion of the Arts-Local Programs	1,234	14,407
<u>National Endowment for the Humanities</u>			
45.115	Promotion of the Humanities-Younger Scholars	0	5,000
45.125	Promotion of the Humanities-Humanities Projects in Museums and Historical Organizations	37,756	0

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
<u>Institute of Museum Services</u>			
45.301	Institute of Museum Services	\$ 132,682	\$ 75,978
45.999	Other Miscellaneous Non-Major Grants	290	0
		<u>TOTAL FOR AGENCY \$ 530,840</u>	<u>\$ 485,336</u>
<u>National Science Foundation</u>			
47.009	Graduate Research Fellowships	\$ 23,755	\$ 19,927
47.041	Engineering Grants	45,552	337
47.049	Mathematical and Physical Sciences	704,029	349,314
47.050	Geosciences	197,581	189,751
47.051	Biological, Behavioral, and Social Sciences	277,858	307,665
47.053	Scientific, Technological, and International Affairs	0	67,892
47.064	College Science Instrumentation Program	157,707	152,570
47.066	Teacher Preparation and Enhancement	61,186	208,821
47.067	Materials Development and Informal Science Education	400,155	221,623
47.069	Research Initiation and Improvement	273,447	2,432,782
47.999	Other Miscellaneous Non-Major Grants	751,564	642,459
		<u>TOTAL FOR AGENCY \$ 2,892,834</u>	<u>\$ 4,593,141</u>
<u>Small Business Administration</u>			
59.005	Business Development Assistance to Small Business	\$ 9,035	\$ 16,204
59.037	Small Business Development Center	214,601	257,479
59.999	Other Miscellaneous Non-Major Grants	0	18,831
		<u>TOTAL FOR AGENCY \$ 223,636</u>	<u>\$ 292,514</u>
<u>Tennessee Valley Authority</u>			
62.001	National Fertilizer Development	\$ 1,193	\$ (24,828)
62.005	Tennessee Valley Region-Natural Resources Development	37,881	24,601
		<u>TOTAL FOR AGENCY \$ 39,074</u>	<u>\$ (227)</u>
<u>Department of Veterans Affairs</u>			
<u>Veterans Health Services and Research Administration</u>			
64.014	Veterans State Domiciliary Care	\$ 0	\$ 125,366
64.015	Veterans State Nursing Home Care	770,013	668,548
<u>Veterans Benefits Administration</u>			
64.111	Veterans Educational Assistance	62,162	0
64.999	Other Miscellaneous Non-Major Grants	293	54,953
		<u>TOTAL FOR AGENCY \$ 832,468</u>	<u>\$ 848,867</u>
<u>Environmental Protection Agency</u>			
<u>Office of Air and Radiation</u>			
66.001	Air Pollution Control Program Support	\$ 675,173	\$ 970,011
<u>Office of Water</u>			
66.418	Construction Grants for Wastewater Treatment Works	181,417	117,468
66.419	Water Pollution Control-State and Interstate Program Support	880,380	951,127
66.423	Water Quality Control Information System-Orientation/Training Seminars, Data, and Monitoring Publications	47,450	6,000
66.432	State Public Water System Supervision	344,747	510,563
66.433	State Underground Water Source Protection	2,436	0
66.438	Construction Management Assistance	318,481	303,177
66.454	Water Quality Management Planning	222,892	198,892
66.458	Capitalization Grants for State Revolving Funds	0	62,178

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
66.459	Nonpoint Source Reservation	\$ 95,883	\$ 131,237
66.460	Nonpoint Source Implementation	332	351,665
66.499	Other Miscellaneous Non-Major Grants	0	81,395
	<u>Office of Research and Development</u>		
66.500	Environmental Protection-Consolidated Research	130,632	378,926
66.505	Water Pollution Control-Research, Development, and Demonstration	32,732	48,120
	<u>Office of Pesticides and Toxic Substances</u>		
66.700	Consolidated Pesticide Compliance Monitoring and Program Coop. Agreements	237,510	387,227
	<u>Office of Solid Waste and Emergency Response</u>		
66.801	Hazardous Waste Management State Program Support	320,329	383,254
66.802	Hazardous Substance Response Trust Fund	921,610	2,364,077
66.804	State Underground Storage Tanks Program	115,989	135,822
66.805	Underground Storage Tank Trust Fund Program	455,925	381,182
66.899	Other Miscellaneous Non-Major Grants	158,471	221,780
	<u>Miscellaneous</u>		
66.999	Other Miscellaneous Non-Major Grants	393,033	212,143
	TOTAL FOR AGENCY	\$ 5,535,422	\$ 8,196,244
	<u>Overseas Private Investment Corporation</u>		
70.003	Foreign Investment Insurance	\$ 24,968	\$ 0
	TOTAL FOR AGENCY	\$ 24,968	\$ 0
	<u>Action</u>		
72.003	Volunteers in Service to America	\$ 70,803	\$ 59,590
	TOTAL FOR AGENCY	\$ 70,803	\$ 59,590
	<u>Department of Energy</u>		
81.036	Energy-Related Inventions	\$ 32,809	\$ 34,607
81.041	State Energy Conservation	551,058	815,487
81.042	Weatherization Assistance for Low-Income Persons	1,776,623	2,127,783
81.049	Basic Energy Sciences - University and Science Education	271,150	147,130
81.050	Energy Extension Service	148,827	155,750
81.052	Energy Conservation for Institutional Buildings	287,175	244,403
81.079	Regional Biomass Programs	61,090	83,243
81.080	Energy Policy, Planning and Development	7,411	1,651
81.087	Renewable Energy Research and Development	0	4,122
81.099	Minority Math Science Leadership Development Recognition	26,112	1,687
81.999	Other Miscellaneous Non-Major Grants	1,708,917	2,284,326
	TOTAL FOR AGENCY	\$ 4,871,172	\$ 5,900,189
	<u>Federal Emergency Management Agency</u>		
	<u>State and Local Programs and Support</u>		
83.503	Civil Defense-State and Local Emergency Management Assistance	\$ 543,179	\$ 550,880
83.504	Other State and Local Direction, Control and Warning	10,035	6,979
83.505	State Disaster Preparedness Grants	47,741	49,979
83.509	Facility Survey, Engineering and Development	48,280	56,314
83.512	State and Local Emergency Operating Centers	3,089	0
83.514	Population Protection Planning	63,452	70,893
83.516	Disaster Assistance	284,976	81,900
83.522	Radiological Defense	104,067	102,033
83.528	Emergency Management Institute-Field Training Program	146,408	108,504

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA# FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
83.999 Other Miscellaneous Non-Major Grants	\$ 2,346	\$ 7,294
TOTAL FOR AGENCY	\$ 1,253,573	\$ 1,034,776
<u>Department of Education</u>		
84.002 Adult Education-State-Administered Program	\$ 570,439	\$ 610,524
84.003 Bilingual Education	360,174	609,952
84.004 Desegregation Assistance, Civil Rights Training, and Advisory Services	225,030	216,898
84.007 Supplemental Educational Opportunity Grants	953,439	972,048
84.009 Education of Handicapped Children in State Operated or Supported Schools	405,115	367,776
84.010 Chapter 1 Programs-Local Educational Agencies	12,148,551	13,441,949
84.011 Migrant Education-Basic State Formula Grant Program	300,010	342,961
84.012 Educationally Deprived Children-State Administration	328,894	309,062
84.013 Chapter 1 Program for Neglected and Delinquent Children	155,149	165,692
84.024 Early Education for Children with Disabilities	287,617	395,244
84.025 Services for Deaf-Blind Children and Youth	49,016	65,886
84.027 Special Education-State Grants	5,158,997	4,947,137
84.029 Special Education-Special Education Personnel Development	295,127	354,089
84.031 Higher Education-Institutional Aid	480,114	169,993
84.032 Guaranteed Student Loans	64,122,080	71,342,575
84.033 College Work-Study Program	2,071,335	1,964,555
84.034 Public Library Services	441,164	424,519
84.035 Interlibrary Cooperation and Resource Sharing	173,826	39,754
84.036 Library Career Training	11,968	20,442
84.037 National Defense/National Direct/Perkins Loan Cancellations	838,421	882,139
84.038 Perkins Loan Program-Federal Capital Contributions	17,065,236	16,035,627
84.042 Student Support Services	511,966	561,211
84.044 Talent Search	221,486	231,839
84.047 Upward Bound	192,403	384,368
84.048 Vocational Education-Basic Grants to States	4,328,416	4,144,094
84.049 Vocational Education-Consumer and Homemaking Education	138,982	46,098
84.053 Vocational Education-State Councils	127,689	0
84.055 Higher Education-Cooperative Education	30,482	42,492
84.060 Indian Education-Formula Grants to Local Educational Agencies	294,098	0
84.061 Indian Education-Special Programs and Projects	216,886	225,177
84.063 Pell Grant Program	17,703,120	20,258,887
84.064 Higher Education-Veterans Education Outreach Program	4,910	2,711
84.069 Grants to States for State Student Incentives	199,787	162,974
84.073 National Diffusion Network	65,978	75,499
84.078 Postsecondary Education Programs for Persons with Disabilities	103,758	96,048
84.083 Women's Educational Equity	0	5,432
84.087 Indian Education-Fellowships for Indian Students	41,550	26,289
84.091 Strengthening Research Library Resources	(24)	0
84.094 Patricia Roberts Harris Fellowships	77,427	82,421
84.097 Law School Clinical Experience Program	0	38,160
84.116 Funds for the Improvement of Postsecondary Education	77,423	203,510
84.126 Rehabilitation Services-Basic Support	5,822,574	5,895,888
84.128 Rehabilitation Services-Service Projects	409,681	344,460
84.129 Rehabilitation Training	17,476	22,892
84.133 National Institute on Disability and Rehabilitation Research	319,309	480,952
84.146 Transition Program for Refugee Children	8,319	(631)
84.151 Federal, State, and Local Partnerships for Educational Improvement	2,457,326	2,374,139
84.153 Business and International Education	3,217	0
84.154 Public Library Construction and Technology Enhancement	178,055	147,499
84.162 Emergency Immigrant Education	0	5,071
84.164 Mathematics and Science Education	596,812	635,186
84.167 Library Literacy	3,875	0
84.168 National Program for Mathematics and Science Education	74,971	57,882
84.169 Comprehensive Services for Independent Living	187,032	156,685

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
84.170	Jacob K. Javits Fellowships	\$ 0	\$ 16,000
84.173	Handicapped-Preschool Grants	532,322	659,753
84.174	Vocational Education-Community Based Organizations	55,576	186,901
84.176	Paul Douglas Teacher Scholarships	58,458	48,087
84.177	Rehabilitation Services-Independent Living Services for Older Blind Individuals	190,686	231,689
84.181	Handicapped Infants and Toddlers	323,763	366,491
84.184	Drug-Free Schools and Communities-National Programs	65,499	76,432
84.185	Robert C. Byrd Honors Scholarships	35,971	37,007
84.186	Drug-Free Schools and Communities-State Grants	1,419,924	2,155,223
84.187	Supported Employment Services for Individuals with Severe Handicaps	418,510	366,825
84.192	Adult Education for the Homeless	68,593	79,644
84.196	State Activities-Education of Homeless Children and Youth	47,801	53,401
84.197	College Library Technology	10,159	11,695
84.203	Star Schools Program	0	37,063
84.216	Capital Expenses	28,698	19,638
84.218	State Program Improvement Grants	32,189	103,923
84.219	Student Literacy Corps	7,211	50,550
84.223	English Literacy Program	8,554	41,706
84.229	Language Resource Centers	95,093	0
84.230	Technology Education Demonstration	183,112	359
84.999	Other Miscellaneous Non-Major Grants	68,324	34,729

TOTAL FOR AGENCY \$144,507,129 \$154,963,171

Department of Health and Human Services (See Note #3)

Family Support Administration

93.020	Family Support Payments to States-Assistance Payments	\$ 31,460,577	\$ 33,233,733
93.021	Job Opportunities and Basic Skills Training	0	1,636,568
93.023	Child Support Enforcement	1,876,159	2,953,928
93.024	Child Support Enforcement Research	302,250	0
93.026	Refugee and Entrant Assistance - State Programs	466,499	333,767
93.028	Low-Income Home Energy Assistance	9,143,529	10,281,876
93.031	Community Services Block Grant	1,190,104	1,546,488
93.034	Emergency Community Services for the Homeless	105,415	101,544

Public Health Service - I

93.103	Food and Drug Administration-Research	4,109	3,585
93.110	Maternal and Child Health Federal Consolidated Programs	91,884	34,458
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	823,938	739,710
93.125	Mental Health Planning and Demonstration Projects	0	121,693
93.130	Primary Care Services-Resource Coordination and Development Cooperative Agreements	0	85,820
93.146	Temporary AIDS Drug Reimbursements	30,000	0
93.147	Post-Baccalaureate Faculty Fellowships	5,701	1,092
93.150	Mental Health Services for the Homeless Block Grant	267,944	274,999
93.158	State Comprehensive Mental Health Service Planning Development Grants	52,754	67,655
93.159	Health Care Services in the Home	0	9,353
93.170	Community Youth Activity Demonstration Grants	25,608	513,410
93.171	Community Youth Activity Block Grants	68,500	90,423
93.199	HIV Home and Community-Based Health Services	0	68,809
93.217	Family Planning-Services	835,016	833,403
93.224	Community Health Centers	45,844	0
93.226	Health Services Research and Development Grants	0	33,340
93.268	Childhood Immunization Grants	1,084,236	197,959
93.273	Alcohol Research Programs	216,972	115,085
93.279	Drug Abuse Research Programs	0	172,474
93.283	Centers for Disease Control-Investigations and Technical Assistance	368,212	135,904
93.298	Nurse Practitioner and Nurse Midwife Education and Traineeships	10,627	16,999

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
93.337	Biomedical Research Support	\$ 79,279	\$ 136,725
93.358	Professional Nurse Traineeships	0	132,954
93.359	Nurse Training Improvement-Special Projects	0	41,543
93.364	Nursing Student Loans	1,001,170	1,032,879
93.375	Minority Biomedical Research Support	384,765	380,946
93.395	Cancer Treatment Research	211,666	(2,825)
93.396	Cancer Biology Research	9,323	0
93.397	Cancer Centers Support	5,827	154,656
<u>Office of Human Development Services</u>			
93.600	Administration for Children, Youth and Families-Head Start	8,554	0
93.612	Native American Programs	7,469	9,205
93.631	Administration on Developmental Disabilities-Projects of National Significance	0	359,099
93.632	Administration on Developmental Disabilities-University Affiliated Facilities	144,224	230,466
93.633	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	1,370,284	1,304,063
93.635	Special Programs for the Aging-Title III, Part C-Nutrition Services	1,887,299	2,186,522
93.643	Children's Justice Grants to States	0	63,260
93.645	Child Welfare Services-State Grants	1,017,722	1,114,139
93.648	Child Welfare Services Training Grants	75,065	83,737
93.652	Administration for Children, Youth and Families-Adoption Opportunities	101,813	87,615
93.658	Foster Care-Title IV-E	2,877,719	3,439,534
93.667	Social Services Block Grant	8,909,577	9,693,935
93.668	Special Programs for the Aging-Title IV-Training, Research and Discretionary Projects and Programs	47,633	95,941
93.669	Administration for Children, Youth and Families-Child Abuse and Neglect State Grants	150,507	109,331
93.671	Family Violence Prevention and Services	50,397	54,631
93.672	Child Abuse Challenge Grants	6,258	5,069
93.673	Grants to States for Planning and Development of Dependent Care Programs	55,906	87,936
93.674	Independent Living	188,744	192,644
<u>Health Care Financing Administration</u>			
93.777	State Survey and Certification of Health Care Providers and Suppliers	419,040	1,218,889
93.778	Medical Assistance Program	129,624,057	171,246,338
<u>Social Security Administration</u>			
93.802	Social Security-Disability Insurance	2,512,444	2,625,728
93.807	Supplemental Security Income	23,326	24,221
93.812	Social Security-Research and Demonstration	94,943	98,201
<u>Public Health Service - II</u>			
93.854	Biological Basis Research in the Neurosciences	52,580	58,148
93.855	Allergy, Immunology and Transplantation Research	629	71,689
93.856	Microbiology and Infectious Diseases Research	54,914	235,170
93.867	Retinal and Choroidal Diseases Research	19,486	15,947
93.871	Strabismus, Amblyopia and Visual Processing	5,162	51,241
93.880	Minority Access to Research Careers	115,580	91,106
93.887	Project Grants for Non-Acute Care Intermediate and Long-Term Care Facilities for Patients with AIDS	55,431	0
93.899	Other Miscellaneous Non-Major Grants	4,348	7,086
93.901	Communications Programs Aimed Toward the Prevention of Alcohol and Other Drug Problems	0	216,041
93.917	HIV Care Formula Grants	0	2,450
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	49,849	108,704
93.991	Preventive Health and Health Services Block Grant	779,960	612,006
93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	3,024,531	3,171,068

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

CFDA# FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1989-90 ASSISTANCE AMOUNT	1990-91 ASSISTANCE AMOUNT
=====		
93.994 Maternal and Child Health Services Block Grant	\$ 2,056,822	\$ 2,202,934
93.995 Adolescent Family Life-Demonstration Projects	(6,393)	0
<u>Miscellaneous</u>		
93.999 Other Miscellaneous Non-Major Grants	<u>1,423,723</u>	<u>1,458,904</u>
TOTAL FOR AGENCY	<u>\$207,377,511</u>	<u>\$258,113,951</u>
<u>Agency for International Development</u>		
.* Miscellaneous Non-Major Grants	\$ <u>355,666</u>	\$ <u>250,064</u>
TOTAL FOR AGENCY	\$ <u>355,666</u>	\$ <u>250,064</u>
<u>Peace Corps</u>		
.* Miscellaneous Non-Major Grants	\$ <u>7,791</u>	\$ <u>10,091</u>
TOTAL FOR AGENCY	\$ <u>7,791</u>	\$ <u>10,091</u>
<u>Corporation for Public Broadcasting</u>		
.* Miscellaneous Non-Major Grants	\$ <u>68,302</u>	\$ <u>114,239</u>
TOTAL FOR AGENCY	\$ <u>68,302</u>	\$ <u>114,239</u>
<u>Agent Orange Class Assistance Program</u>		
.* Miscellaneous Non-Major Grants	\$ <u>0</u>	\$ <u>130,290</u>
TOTAL FOR AGENCY	\$ <u>0</u>	\$ <u>130,290</u>
<u>Miscellaneous</u>		
99.999 Other Miscellaneous Non-Major Grants	\$ <u>208,541</u>	\$ <u>234,655</u>
TOTAL FOR AGENCY	\$ <u>208,541</u>	\$ <u>234,655</u>
GRAND TOTAL	<u>\$650,623,861</u>	<u>\$746,212,144</u>

STATE OF MONTANA
NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE TWO YEARS ENDED JUNE 30, 1991

Note 1. Basis of Accounting

The assistance amounts presented on the accompanying Schedule of Federal Financial Assistance of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Program

The amount reported for the Food Distribution program (CFDA #10.550) represents the dollar value of food commodities distributed to eligible recipients during the year. The United States Department of Agriculture provided the current value of the commodities used by the state to compute the amount reported.

Food Stamps Program

The amount reported for the Food Stamps program (CFDA #10.551) represents the face value of the food stamps issued to eligible recipients.

Federal Surplus Personal Property

The amounts presented for Donations of Federal Surplus Personal Property (CFDA #39.003) are the donated values of the property at the time of receipt.

Guaranteed Student Loans

The amount presented for Guaranteed Student Loans (CFDA #84.032) represents the amount of new loans guaranteed, administrative expenses, and loans at risk due to debts and defaults during each year presented.

Perkins Loan Program

The amount reported for the Perkins Loan program (CFDA #84.038) represents the amount of loans outstanding at June 30, plus the administrative costs expended as of June 30 for each year presented.

Note 2. Major Federal Financial Assistance Programs

In accordance with the criteria established by P.L. 98-502 and OMB Circular A-128, a major federal financial assistance program for the State of Montana is defined as assistance to the state exceeding \$3 million for any federal program in any fiscal year ended June 30.

Note 3. CFDA

The CFDA # assigned for each federal program listed in the Schedule of Federal Financial Assistance was based upon agency agreements with the federal government and the December 1990 Catalog of Federal Domestic Assistance.

The December 1990 Catalog of Federal Domestic Assistance published a change related to programs under the Department of Health and Human Services (HHS). CFDA numbers were changed from 13.xxx to 93.xxx. The HHS programs are reported under CFDA numbers 93.xxx on the accompanying schedule for consistency between fiscal year 1989-90 and 1990-91.

There were also numerous CFDA number changes during the period. The following cross reference reflects those changes:

13.221	-	93.887
13.280	-	93.279
13.642	-	93.667
13.662	-	93.612
13.665	-	93.031
13.679	-	93.023
13.714	-	93.778
13.781	-	93.021
13.789	-	93.028
13.792	-	93.031
13.808	-	93.020
13.809	-	93.024
13.814	-	93.026
13.818	-	93.028

The entry for CFDA #93.158 corresponds to 13.158, which was deleted in 1990 before the conversion to the 93.xxx series.

Programs not assigned a CFDA # in the December 1990 Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.999 or **.999. The first two digits represent the federal agency and the third digit represents the division within the federal agency. In cases where the division could not be identified, the program was assigned a CFDA # in the format **.999.

There are no CFDA numbers assigned to federal assistance from the Agency for International Development, the Peace Corps, the Corporation for Public Broadcasting, and the Agent Orange Class Assistance Program.

Note 4. Cooperative Forestry Assistance Program

The Montana Department of State Lands received Federal Excess Personal Property (FEPP) through the Cooperative Forestry Assistance program (CFDA 10.664). In fiscal years 1989-90 and 1990-91, the department

received property valued at \$974,061 and \$734,965, respectively. The department's perpetual inventory system accounts for the FEPP based on the original acquisition cost to the federal government. Therefore the records do not reflect the current market value of the property. The department maintains property inventory records for capital and sensitive federal excess equipment, which it reconciles with the USDA, Forest Service every two years. The balance of FEPP on the department's inventory records at March 18, 1992 was \$5,982,362.

The federal government retains title to the property. The Department of State Lands coordinates disposal of FEPP with the U.S. Forest Service and General Services Administration. All proceeds from the sales go to the federal government. The value of FEPP related to this program is not reflected in the accompanying Schedule of Federal Financial Assistance.

Note 5. Department of Defense Grants

The Department of Defense obtained a legal opinion that the Single Audit Act does not apply to National Guard funds. Therefore, the accompanying schedule does not include any assistance received from U.S. Department of Defense, Air and Army National Guard.

Note 6. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, books, and cassettes from the federal government under this program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The library received equipment, books, and cassettes valued at \$96,732 in fiscal year 1989-90 and \$92,063 in fiscal year 1990-91. The approximate value of the items in inventory (not distributed to individuals) at June 30, 1990 was \$664,638 and was \$667,253 as of June 30, 1991. The accompanying schedule does not include any of these amounts.

Report on Internal Controls

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

SINGLE AUDIT COMBINED REPORT ON INTERNAL CONTROL STRUCTURE

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana as of and for each of the two years ended June 30, 1990 and 1991, and have issued our reports thereon dated October 31, 1990, and November 4, 1991, respectively. We have also audited the State of Montana's compliance with requirements applicable to major federal financial assistance programs and have issued our reports thereon dated April 16, 1992.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the State of Montana complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the two years ended June 30, 1990 and 1991, we considered the State of Montana's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the state's general purpose financial statements and on its compliance with requirements applicable to major federal financial assistance programs and not to provide assurance on the internal control structure.

The management of the State of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial

statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

Accounting

Cash	Payroll
Revenue/Receivables	Inventory
Expenditures/Payables	Property, Plant and Equipment
Investments	Central Data Processing

Administrative

General Requirements

Political Activity
Davis-Bacon Act
Civil Rights
Cash Management
Relocation Assistance and
Real Property Acquisition
Federal Financial Reports
Allowable Costs/Cost Principles
Drug-free Workplace
Administrative Requirements

Specific Requirements

Types of Service
Eligibility
Matching, Level of Effort, or
Earmarking
Reporting
Cost Allocation
Special Requirements
Monitoring Subrecipients

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During each of the two fiscal years ending June 30, 1990 and 1991, the State of Montana expended 86 percent and 87 percent, respectively, of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the state's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements or to administer federal financial assistance programs in accordance with applicable laws and regulations.

Our audit disclosed a reportable condition concerning internal controls at the Department of Family Services. The condition relates to inappropriate design and incomplete implementation of control policies and procedures in several of the control categories described above. These matters are discussed in issues A13-1 to A13-15 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

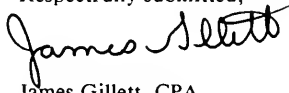
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the State of Montana in separate communications as part of individual agency audits.

This report is intended for the information of management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett", is written over the typed name.

James Gillett, CPA
Deputy Legislative Auditor

April 16, 1992

Reports and Opinion on Compliance and Schedule of Questioned Costs

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT
LEGAL COUNSEL:
JOHN W. NORTHEY

COMPLIANCE REPORT BASED ON AN AUDIT OF
GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana as of and for each of the two years ended June 30, 1990 and 1991, and have issued our reports thereon dated October 31, 1990, and November 4, 1991, respectively.

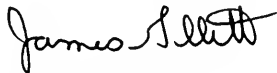
We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State of Montana is the responsibility of the State of Montana management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the State of Montana's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the State of Montana complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Montana had not complied, in all material respects, with those provisions.

This report is intended for the information of management, the federal cognizant agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

April 16, 1992

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit
JAMES GILLET
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

SINGLE AUDIT OPINION ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the State of Montana's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; subrecipient monitoring; special requirements related to exit interviews conducted in connection with the Perkins Loan Program (CFDA #84.038) and the Guaranteed Student Loan Program (CFDA #84.032); claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the two years ended June 30, 1991. The management of the State of Montana is responsible for the State of Montana's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

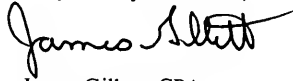
We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Montana's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit disclosed immaterial instances of noncompliance with the requirements referred to above, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues,

Recommendations, and Responses by State Agency section of this document. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Montana complied, in all material respects with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; subrecipient monitoring; special requirements related to exit interviews conducted in connection with the Perkins Loan Program (CFDA #84.038) and the Guaranteed Student Loan Program (CFDA #84.032); claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the two years ended June 30, 1991.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized, flowing script.

James Gillett, CPA
Deputy Legislative Auditor

April 16, 1992

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit
JAMES GILLET
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

SINGLE AUDIT REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have applied procedures to test the State of Montana's compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the two years ended June 30, 1991.

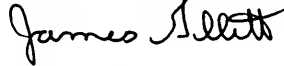
Political Activity	Federal Financial Reports
Davis-Bacon Act	Allowable Cost/Cost Principles
Civil Rights	Drug-free Workplace
Cash Management	Administrative Requirements
Relocation Assistance and Real Property Acquisition	

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Montana's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the first paragraph of this report. With the respect to items not tested, nothing came to our attention that caused us to believe that the State of Montana had not complied in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

This report is intended for the information of management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "Gillett".

James Gillett, CPA
Deputy Legislative Auditor

April 16, 1992

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit
JAMES GILLET
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit



SINGLE AUDIT REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

To the Legislative Audit Committee
of the Montana State Legislature:

In connection with our audit of the general purpose financial statements of the State of Montana as of and for each of the two years ended June 30, 1990 and 1991, and with our study and evaluation of the State of Montana's internal control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for each of the two fiscal years ended June 30, 1991.

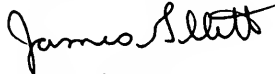
As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; and compliance with state laws and regulations that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Montana's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed a material instance of noncompliance with the requirements listed in the preceding paragraph. The Department of Family Services did not comply with OMB Circular A-128 requirements for monitoring subrecipients. This condition is further described in issue A13-11 in the Federal Issues, Recommendations, and Responses by State Agency section of this document. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Montana had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with

those requirements, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

This report is intended for the information of management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized flourish at the end.

James Gillett, CPA
Deputy Legislative Auditor

April 16, 1992

STATE OF MONTANA
SCHEDULE OF QUESTIONED COSTS
FOR THE TWO YEARS ENDED JUNE 30, 1991

STATE AGENCY: CFDA #	PROGRAM NAME (Project #)	AMOUNTS QUESTIONED	FINDING REFERENCES
<u>Department of Fish, Wildlife and Parks:</u>			
10.999	Forest Service	\$ 757	A3-1
<u>Department of Corrections and Human Services:</u>			
13.714	Medical Assistance Program	4,714	A7-2
<u>Department of Labor and Industry:</u>			
17.246	Employment Training Assistance - Dislocated Workers	19,081	A8-5
<u>Department of Social and Rehabilitative Services:</u>			
13.714	Medical Assistance Program	9,556	A12-7
13.714	Medical Assistance Program	2,002	A12-12
13.789	Low Income Home Energy Assistance Program	339	A12-12
10.561	Food Stamps	992	A12-13
<u>Department of Family Services:</u>			
13.658	Foster Care Title IV-E	9,668	A13-1
13.xxx	Aging (13.633, 13.635, 13.668) and Foster Care (13.645, 13.652, 13.658, 13.674)	438,267	A13-8
13.658	Foster Care Title IV-E	1,678	A13-10
13.658	Foster Care Title IV-E	625	A13-10
13.658	Foster Care Title IV-E	3,018	A13-10
13.658	Foster Care Title IV-E	179	A13-10
13.658	Foster Care Title IV-E	305	A13-10
<u>Commissioner of Higher Education:</u>			
84.048	Vocational Education - Basic Grants to State	46,539	B1-3
84.048	Vocational Education - Basic Grants to State	53,089	B1-3
84.048	Vocational Education - Basic Grants to State	42	B1-3
84.048	Vocational Education - Basic Grants to State	3	B1-4
84.044	Talent Search	25	B1-4
<u>Montana College of Mineral Science and Technology:</u>			
66.419 ¹	Water Pollution Control - State and Interstate Program Support	6,907	B3-1
66.423	Water Quality Control Information System - Orientation/ Training Seminars, Data, and Monitoring Publications	352	B3-1
66.419 ¹	Water Pollution Control - State and Interstate Program Support	1,550	B3-2
66.423	Water Quality Control Information System - Orientation/ Training Seminars, Data, and Monitoring Publications	49	B3-3
15.221	Cooperative Agreements for Research in Public Lands Management	70	B3-3
<u>Western Montana College:</u>			
84.063	Pell Grant Program	4,080	B4-3
84.007	Supplemental Educational Opportunity Grants	600	B4-3
84.038	Perkins Loan Program - Federal Capital Contributions	1,200	B4-3
84.032	Guaranteed Student Loans (Stafford Loans)	3,383	B4-3
84.063	Pell Grant Program	10,950	B4-5
84.033	College Work-Study Program	1,000	B4-5
84.032	Guaranteed Student Loans (Stafford Loans)	16,317	B4-5
<u>Northern Montana College:</u>			
84.048 ¹	Vocational Education - Basic Grants to State:		
	Vo-Ed Research	147,022	B5-1
	Diesel Tech	1,584	B5-1
	Peer Counseling	26,892	B5-1
	Peer Counseling	41,932	B5-1
	Career Choices	17,245	B5-1

(Continued)

STATE OF MONTANA
SCHEDULE OF QUESTIONED COSTS
FOR THE TWO YEARS ENDED JUNE 30, 1991
(Continued)

STATE AGENCY: CFDA #	PROGRAM NAME (Project #)	AMOUNTS QUESTIONED	FINDING REFERENCES
<u>University of Montana:</u>			
10.001	Agricultural Research-Basic and Applied Research	105	B6-1
84.133	National Institute on Disability and Rehabilitation Research	2,947	B6-2
47.099	Data Acquisition and Management System	4,746	B6-4
<u>Montana State University:</u>			
10.200	Grants for Agricultural Research, Special Research Grants	37,743	B7-4
<u>Billings Vocational-Technical Center:</u>			
84.xxx	Pell Grants and Campus Based Aid (84.007, 84.032, 84.033, 84.063, 84.069)	741	B8-2
<u>Butte Vocational-Technical Center:</u>			
84.xxx	Pell Grants and Campus Based Aid (84.007, 84.032, 84.033, 84.063, 84.069)	2,622	B8-2
		1,889	B8-2
84.033	College Work Study	807	B8-3
<u>Helena Vocational-Technical Center:</u>			
84.048 ¹	Vocational Education - Basic Grants to States	<u>24,242</u>	B8-6
TOTAL QUESTIONED COSTS IN THIS SINGLE AUDIT REPORT		<u>\$947,854</u>	

¹ Federal assistance was a sub-grant from another state agency.

Federal Issues, Recommendations, and Responses by State Agency

Appendix A - Executive Branch Excluding Higher Education A-1

Appendix B - Higher Education B-1

A1-1 Requesting Federal Assistance

The Governor's Office (office), through its clearinghouse function, is responsible for coordinating requests for financial assistance from the federal government for all state agencies. To receive assistance from certain federal programs requiring intergovernmental review, a state agency or local government unit prepares an application for specific funding, obtains a number assigned by the clearinghouse, and submits the application to the federal government. The federal government will not process an application which does not have a number assigned by the clearinghouse. We estimate \$212 million of the state's federal financial assistance expenditures during fiscal year 1988-89 were incurred for federal programs requiring intergovernmental review.

The office does not approve applications prior to submission to the federal government. Section 17-3-104, MCA, states, "All applications made by state agencies for federal assistance program funds, with the exception of university system research grants, must be approved by the governor prior to their submission to the federal authorities." According to office personnel, this function was eliminated due to the cost and time involved in reviewing the applications. Also, they believed it was a duplication of effort since, under budget amendment laws, a review of federal assistance is performed prior to acceptance of federal assistance not previously considered by the legislature.

The state receives a major portion of its federal assistance on a continuing basis. Since none of the applications are reviewed and legislative funding may not be based on a review of specific federal funding proposals, the potential exists that the state could enter into an agreement with the federal government in which additional state funding would be required. In addition, without prior review and approval the state is not assured that the funds are going to the appropriate state agency. Another state agency may have the facilities to manage the program more effectively and/or with less cost to the state.

It is important that the office review all applications for federal assistance in order to be aware of specific requirements of

Governor's Office

individual agreements and proper placement of the assistance with state agencies.

Recommendation #A1-1

We recommend the office comply with state law requiring the governor's approval of applications for federal assistance.

Response #A1-1

The Governor's Office acknowledges that applications for federal assistance by state agencies have not been reviewed prior to submission to the federal government. We disagree, however, with the assertions regarding the importance of such review or the implication that any of these potential problems could be corrected and/or anticipated prior to the Governor's approval. The lack of specific audit findings on any of the points raised seem to lend credibility to our conclusion.

The Governor's Office has not approved agency applications for federal assistance since the end of the Judge administration. We are unaware of any problems resulting from the lack of prior approval.

Nor do we believe prior approval by the Governor is necessary or meaningful. Most of the \$212 million of federal revenue cited in the narrative was included in the \$423.5 million of federal revenue appropriated by the legislature. Only \$25.2 million in federal authority was added by budget amendments. When the funds are appropriated, the agency request is merely carrying out legislative intent. For that reason, an additional layer of review is unnecessary and meaningless, given the Governor's lack of power to change appropriations once they are signed into law.

The previous administration and the legislature must have reached similar conclusions. Resources devoted to the clearinghouse have been drastically reduced since the Judge

administration, with the sole remaining FTE eliminated in the January special session. Resources available to administer the act in the fashion implied by the narrative simply do not currently exist.

For these and other reasons, the Governor's Office will request the repeal of 17-3-105, MCA and seriously review the related statutes as part of the post-special session reorganization of the function.

Office of Public Instruction

A2-1 Debarment and Suspension Controls

During fiscal year 1990-91, the Office of Public Instruction (OPI) contracted with approximately 20 individuals to conduct AIDS Education (CFDA #13.118) workshops. We noted OPI did not require these individuals to sign a certification form stating they had not been debarred or suspended from participating in federal assistance programs. In addition, OPI did not verify the individuals were not on the list of government-wide debarments and suspensions.

The Office of Management and Budget issued the Common Rule, which sets forth uniform guidelines for operation of federal programs. The Common Rule states, "Grantees or Subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs. . ." "Debarment or suspensions" are terms used by the federal government to describe actions taken by any federal agency to prohibit a person or entity from receiving federal funds.

During the prior OPI audit for the two fiscal years ended June 30, 1990, we noted OPI did not have a system of ensuring subgrants of federal money were not made to entities or individuals that had previously been prohibited from participating in federal programs. In fiscal year 1991-92, we noted OPI implemented procedures to include in its contracts a clause requiring subrecipients to ensure further distribution of the money was not made to parties on the list; however, it did not establish a system to ensure federal moneys were not used to contract directly with individuals debarred or suspended from participation in federal programs.

OPI personnel stated they ordered the list of debarred, suspended, and ineligible contractors from the U.S. Department of Education in February 1992 but had not received the list as of April 1992. Issuing federal funds to parties that have been prohibited from participation in federal programs could result in federal sanctions including loss of funding. We did not find

evidence indicating federal funds were distributed to debarred or suspended parties; however, the potential exists.

Recommendation #A2-1

We recommend OPI establish a system to ensure it does not issue federal money to parties debarred or suspended from participation in federal programs.

Response #A2-1

We concur. Recipients of federal funds subgranted by OPI are now required to certify they have not been debarred or suspended from participation in federal programs. Additionally, as noted in the auditor's report, a list of debarred or suspended parties has been ordered from the U.S. Printing Office. OPI personnel engaging in contracts with individuals/organizations will be required to check this list to ensure federal funds are not distributed to debarred or suspended parties.

**A2-2 Vocational
Education Records
Retention**

Vocational education subgrant agreements we examined did not contain language requiring the subgrantee to retain related records for a minimum of three years as required by federal regulations. Failure to retain these records may hinder future audits of the subrecipients and could result in sanctions and reduction of funding to OPI from the federal grantor agency.

Recommendation #A2-2

We recommend OPI include language in vocational education subgrant agreements to ensure records are retained by subgrantees in accordance with federal regulations.

Response #A2-2

We concur. Vocational education subgrant agreements now include language requiring the subgrantee to retain related records for a minimum of three years.

A2-3 Maintenance of Fiscal Effort

During fiscal year 1990-91, OPI received approximately \$13 million from the U.S. Department of Education for the Educationally Deprived Children-Local Educational Agencies Program (CFDA #84.010). The objective of the program is to provide funds through state educational agencies to local educational agencies to meet the special educational needs of educationally deprived children in school attendance areas with high concentrations of children from low-income families. Federal regulations for this program include a maintenance of effort requirement. The combined fiscal effort per student or the aggregate expenditures of a local educational agency from state and local funds must not go below a certain limit. The federal regulations outline expenditures which may not be included when calculating maintenance of effort.

We reviewed the maintenance of effort determination which OPI completed in April 1991. This determination compared aggregate expenditures between fiscal years 1988-89 and 1989-90. We noted OPI included revenue received from a local mill levy, designated for bus depreciation, when calculating this maintenance of effort. The bus depreciation reserve fund is used for replacement of buses and is considered a major capital outlay. Federal regulations do not allow the state educational agency to use capital outlay expenditures when calculating maintenance of effort. According to OPI personnel, this revenue has been included in the maintenance of effort calculation for many years. Personnel responsible for the calculation requested computer programming changes for fiscal year 1989-90 to exclude the local mill levy and include other items. The changes were not made as requested and the local levy remained in the calculation.

We did not find evidence indicating the maintenance of effort requirement was not met; however, the potential exists for this to occur. In January 1992, OPI personnel began analyzing the components in its maintenance of effort calculation to determine allowability. The analysis included requesting clarification of certain issues from the U.S. Department of Education. OPI personnel stated programming changes have been made for verifying maintenance of effort between fiscal years 1989-90

and 1990-91 and both fiscal years' aggregate expenditures have been calculated under the same criteria.

Recommendation #A2-3

We recommend OPI comply with federal regulations concerning the treatment of capital outlay when calculating maintenance of effort.

Response #A2-3

We concur. A new maintenance of effort formula has been developed and testing has been performed to verify computer programming accuracy. We have requested approval of the new formula from the Department of Education.

A2-4 Federal Financial Report

The federal government requires state agencies to periodically report the financial status of grants received by the state. Federal regulations require the recipient of the grants to ensure the financial status reports contain reliable financial data. OPI received approximately \$2 million of Vocational Education-Basic Grants to States (CFDA #84.048) from the Montana Commissioner of Higher Education Office (CHE) during fiscal year 1990-91. According to the subgrant agreement, OPI is required to submit a financial status report to CHE disclosing expenditures incurred during the state fiscal year.

We reviewed the June 30, 1991 financial status report submitted by OPI to CHE and noted the report did not agree to the state's accounting records. We identified differences ranging from \$1,175 to \$54,221. OPI personnel use a computer spreadsheet to track expenditures for each fiscal year. The financial status report is prepared from this spreadsheet. According to OPI personnel, the spreadsheet contains refunds and adjustments which occurred after fiscal year-end and therefore, are not included on the state's accounting records as of June 30, 1991. OPI personnel could not provide a reconciliation of the amounts reported to CHE to those recorded on the state's accounting

records. Since federal regulations require financial reports submitted be complete and accurate and the Statewide Budgeting and Accounting System (SBAS) has been designated as the state's official accounting records, OPI should ensure the amounts reported to CHE are reconciled to SBAS.

Recommendation #A2-4

We recommend OPI ensure the federal financial reports reconcile to the state's accounting records.

Response #A2-4

We concur. All future financial status reports to the Commissioner of Higher Education's Office will be prepared from the state's accounting records, rather than from a computer spreadsheet.

Department of Fish, Wildlife and Parks

A3-1 Transaction Support

During our testing, we noted one instance where a Statewide Budgeting and Accounting System (SBAS) document lacked sufficient supporting documentation to explain the basis for moving the expenditures from state to federal funding. During fiscal year 1987-88 the Department of Fish, Wildlife and Parks (department) moved \$757 of personal service charges from federal to state funding. This transaction contained sufficient support for moving the charges from a more restrictive source to a source with less restrictions. However, during the beginning of the next fiscal year, 1988-89, the department moved these same charges back to the federal funding source. The department could not explain why these expenditures were moved and could not provide support for the second transfer. Therefore, we question \$757 of charges to Department of Agriculture (CFDA #10.999).

Every SBAS document should be properly and adequately supported in order to determine the reasonableness and accuracy of the transaction. Without sufficient support documentation, the possibility exists that invalid or incorrect transactions are recorded on SBAS.

Recommendation #A3-1

We recommend the department ensure adequate written documentation exists for all transactions processed on the state's accounting records.

Response #A3-1

The Department concurs with this recommendation.

The Department agrees with the auditors that all SBAS documents should have adequate supporting documentation, and in almost every instance the Department has complied with this requirement.

Department of Fish, Wildlife and Parks

A3-2 Compliance with Federal Law Governing Political Activity

Federal law and regulations provide that federal funds cannot be used for partisan political purposes of any kind by any person or organization involved in the administration of federally assisted programs. Section 1502 of the federal Hatch Act states, "A state or local officer or employee may not be a candidate for elective office," if the employee's position is federally funded.

The department's policy requires its employees to notify the legal division if they intend to participate in partisan political activity. During the audit, we noted two instances in which department employees, who's salaries were in part federally funded, were candidates for elective office.

In the first instance, according to department personnel, the employee contacted the department's legal council to ensure his candidacy did not violate any laws or regulations. The department, through discussions with the employee, requested and received an advisory opinion from the U.S. Merit Systems Protection Board, Office of the Special Council and resolved the situation.

According to department personnel, when they received resolution for the first employee, the department contacted the second employee and discussed options for a resolution; however, since the employee believed his political activity did not violate the federal law, no further action was taken by the department.

The department is responsible for ensuring federal funds are expended in accordance with federal regulations. We noted \$3,710 of charges to the U.S. Department of the Interior (CFDA #15.611) for the affected employee's salary for the period from the date the employee filed for election until his resignation from the department.

Since this matter is under investigation by the U.S. Merit Systems Protection Board, Office of the Special Council, we present this information for disclosure purposes only.

Department of Health and Environmental Sciences

A4-1 Miscoding of Expenditure Accruals

State policy requires state agencies, such as the Department of Health and Environmental Sciences (department) to classify accrual transactions as "A" or "B." This allows the Department of Administration to properly reflect these transactions on the state's financial statements. An "A" accrual is recorded for goods or services ordered prior to June 30 of each year; but the goods are not received by the department, or services are not rendered by the contractor prior to the end of the fiscal year. A "B" accrual is recorded when goods are received by the department or services are rendered prior to June 30.

The department did not properly record all accrued expenditures at the end of fiscal years 1988-89 and 1989-90. Of the nine expenditure accruals reviewed, six were improperly recorded. The total value of these miscoded transactions for fiscal years 1988-89 and 1989-90 is \$416,954 and \$813,557, respectively. Four of the transactions tested were funded with money from the Women, Infants and Children program (WIC) CFDA #10.557 and the Handicapped Children Services program (HCS) (CFDA #13.994).

Department personnel indicated the WIC "A" accruals were coded based on an estimate of the number of food vouchers that were issued but not yet cashed at fiscal year-end. The HCS "B" accruals were recorded based on the estimated cost of services that providers were authorized to perform at fiscal year-end. Because the WIC food vouchers are an obligation of the state when the vouchers are issued, the department should have recorded a "B" accrual rather than an "A" accrual. An authorization to perform services under HCS is not a valid obligation of the state until the services are performed by providers; therefore, these transactions should have been recorded as "A" accruals rather than "B" accruals. Department officials indicated the classification of "A" or "B" is not reviewed as closely as the review of the other coding for transactions. Consequently, the errors were caused by oversights during the review and approval of the transactions. The department should strengthen procedures to review and approve accrual transactions at fiscal year-end.

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Recommendation #A4-1

We recommend the department strengthen procedures to review and approve the classification of "A" or "B" accruals at fiscal year-end in accordance with state policy.

Response #A4-1

The department has added extra staff to assure that all accruals are classified correctly starting in FY 1992.

Federal Compliance

The department receives federal financial assistance from the U.S. Department of Health and Human Services (DHHS) - CFDA #13.xxx, and the United States Department of Agriculture (USDA) - CFDA #10.xxx. During fiscal year 1990-91, the department's grant expenditures from these federal agencies totalled \$6,142,964 and \$14,199,828, respectively. The department subgrants the majority of this assistance to local governments, primarily county governments. Federal regulations require the department to determine whether local governments, which receive subgrants of federal moneys through the department, have met the audit requirements of the United States Office of Management and Budget (OMB) Circular A-128. The following paragraphs discuss concerns noted during our review of the department's procedures for monitoring subrecipients.

A4-2 Timely Receipt of Audit Reports

During our prior audit, we noted the department did not have an adequate system to monitor local governments which receive subgrants through the department. The department concurred with our recommendation and prepared a control schedule to monitor the due dates of the audit reports. However, during our current audit we determined the department's subrecipient monitoring procedures continue to be inadequate.

We noted only 17 of 32 county audit reports due June 30, 1991, had been received as of February 28, 1992. These reports are for counties with audit periods documented as ending June 30,

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1990. We reviewed five of these county files and found no correspondence regarding the untimely receipt of the audit reports. Two of the eleven counties documented on the control schedule with a two-year audit period ending June 30, 1991 have actual audit periods ending June 30, 1990. In addition, two counties have no audit period documented; therefore, the department does not know when to expect these reports.

OMB Circular A-128 states subrecipients shall submit copies (of the audit reports) to recipients that provided the assistance. The reports shall be sent within 30 days after the completion of the audit, but no later than one year after the end of the audit period unless a longer period is agreed to by the federal cognizant agency. Also, there is a provision included in the contracts between the department and the local governments requiring timely submission of audit reports. The Single Audit Act also provides that the cognizant federal agency shall, upon request of such government, permit the government to conduct biennial audits. We found no indication that federal cognizant approval was received for the biennial audit periods.

Department personnel rely on Local Government Services (LGS) Bureau of the Department of Commerce for timely receipt of the reports. However, counties have the option of obtaining an audit from a private CPA firm or contracting with LGS for an audit. Department personnel said LGS sometimes changes the county audit periods without informing them. As of February 28, 1992, the department did not have a schedule of fiscal year 1990-91 and 1991-92 audits to be conducted by LGS.

Department personnel have indicated that effective July 1, 1992, the concern will no longer be the department's because the state Single Audit Act will resolve the problem. The 1991 Legislature passed a state Single Audit Act. We believe the Act will provide a system to assist the department in monitoring city or county subrecipients of federal funds, however, the ultimate responsibility remains with the department.

Department of Health and Environmental Sciences

Recommendation #A4-2

We recommend the department coordinate with Local Government Services Bureau of the Department of Commerce to ensure timely receipt of subrecipient audit reports.

Response #A4-2

Concur. The Department of Health and Environmental Sciences will start immediately to work with Local Government Services Bureau of the Department of Commerce to assure the timely receipt of audit reports.

A4-3 Federal Financial Status Reports

During the past two audits of the Department of Health and Environmental Sciences for fiscal years 1986-87 through 1989-90, we identified errors on federal financial status reports (FSRs). The department concurred with, but did not fully implement, our recommendation to ensure amounts are reported accurately and in compliance with federal regulations.

During the current audit we determined the department could improve review procedures to ensure amounts and information reported on the FSR are accurate. Federal regulations require that federal financial status reports submitted to the federal government be accurate and supported by the department's records. We reviewed the Child Nutrition (CFDA #10.558) FSR for the federal fiscal year 1990-91. We noted a typographical error overstated the net outlays to date for state administrative expenditures by \$6,000; however, the total federal share of outlays reported is correct.

We reviewed three additional Child Nutrition FSRs and noted typographical errors in two of the three reports. One FSR reported inconsistent dates for the period covered by the report. The second FSR showed total net outlays to date understated by \$200 as a result of math and transposition errors. However, the total federal share of outlays is correct. Review procedures,

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including footing and cross-footing report totals, would have prevented these errors.

Recommendation #A4-3

We recommend the department establish procedures to ensure accurate reports are provided to the federal government in accordance with federal regulations.

Response #A4-3

Concur. The department has added new staff by budget amendment. This new staff will be used to establish a system to ensure that there are no typographical errors on federal financial reports. We expect to have this staff on hired by June 1, 1992.

A4-4 Noncompliance with Contract Provisions

The department contracts with local governments to provide health care services funded by the Maternal and Child Health (MCH) block grant (CFDA #13.994) for mothers and children. During fiscal years 1988-89 and 1989-90, MCH block grant expenditures were \$2,133,338 and \$2,056,822, respectively.

We reviewed fiscal year 1989-90 contracts with four counties and determined the department did not enforce the contract provisions. The contract terms require each county to submit to the department a quarterly report with a detailed accounting of how the funds were spent, the services provided, and evidence of sufficient matching funds. The report is due by the last day of the month following the end of each quarter. The contract further specifies the department shall reimburse the county "after receipt" of the quarterly expenditure report.

For three of the counties, the department paid the second, third, and fourth quarter payments prior to receipt of quarterly reports. According to the contract provisions, the counties should not have been paid until the appropriate reports were provided to the department. These payments totaled \$11,117. One county

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did not provide any quarterly reports during the fiscal year, yet the department paid federal funds totaling \$3,013.

In October 1990, the department's internal auditor completed a limited scope audit of the MCH Block Grant Program for fiscal years 1987-88, 1988-89, and 1989-90. In addition to the files we reviewed, the report identified six other counties which did not submit fourth quarter reports and nine counties that did not return unspent federal funds to the department by August 31, 1990 as required by the contract. The department has disbursed funds totaling \$5,359 for fiscal years 1988-89, 1989-90, and 1990-91 to one county that are not supported by quarterly reports. Department personnel indicated the concerns regarding the reporting of MCH funds were brought to the attention of the program director, the administrator of Centralized Services Division, and the deputy director of the department as far back as April of 1989; however, the concerns have not been resolved.

The internal auditor uses the quarterly reports at fiscal year-end as a monitoring tool to ensure counties meet the required match and to ensure the counties return unspent funds to the department. Department officials indicated a change in personnel responsible for monitoring the MCH block grant program resulted in a lack of communication with the program management. In addition, the elimination of the department's Nursing Bureau in fiscal year 1987-88 reduced the contact between the department and the counties. As a result, the counties are not aware of the contract requirements. Department officials indicated they are aware of the contract language and are implementing procedures to ensure compliance.

Recommendation #A4-4

We recommend the department enforce the provisions of the contracts established for the Maternal and Child Health block grant.

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Response #A4-4

The department has, through the Family/MCH Bureau Administration, set up mechanisms for monitoring the provisions of the contracts established for the Maternal and Child Health Block Grant. These include spreadsheet programs, internal monitoring, verification and cross-checking. An established method of requesting payments to counties and frequent communication with the grantees enhances this monitoring mechanism.

Department of Natural Resources and Conservation

A5-1 Untimely Federal Reports

The state of Montana receives oil overcharge Petroleum Violation Escrow (PVE) moneys (CFDA #81.999) as the result of the settlement of various federal lawsuits against petroleum companies. The Department of Natural Resources and Conservation (department) administers the programs funded by these PVE moneys. Federal regulations require the department to prepare and submit a report each year 90 days after the end of the state fiscal year describing the projects and expenditures financed with PVE moneys. The department had not submitted the fiscal year 1988-89 or 1989-90 report as of January 1991.

Department personnel stated preparation of the annual reports has been delayed because they needed more time to gather program and financial information from other state agencies. However, we believe the department's failure to file the 1988-89 annual PVE report more than 16 months after the deadline is excessive. The department should gather information necessary to prepare and submit these reports in a timely manner.

Recommendation #A5-1

We recommend the department prepare and submit the annual Petroleum Violation Escrow expenditure report within the time required by federal regulation.

Response #A5-1

The department concurs. The Energy Division has established new procedures in collecting information from other agencies and will use the complete accounting records at the Department of Administration to gather the financial information.

Department of Revenue

A6-1 Medicaid and Welfare Fraud Investigations

The Department of Revenue (department) performs Medicaid and Welfare fraud investigations under contract with the Department of Social and Rehabilitation Services (SRS). The department bills SRS quarterly for the work performed for the benefit of the Medicaid and Welfare fraud programs (CFDA #s 13.775 and 13.780). The department's initial contract for fiscal year 1988-89 was \$121,883 for Welfare fraud and \$26,800 for Medicaid fraud. In April 1989, the department received an amended contract amount because the federal reimbursement rate increased for Welfare fraud, retroactive to October 1988.

During the audit, we noted the department did not establish or amend its Welfare fraud appropriation authority for the contract amount. The department established the appropriation authority at \$82,810 and subsequently amended it to \$115,810. However, the final contract amount for Welfare fraud was \$140,129. In order to spend within its appropriation authority as recorded on the state's accounting system, the department transferred \$10,625 during fiscal year 1988-89 and \$6,523 during fiscal year 1989-90 of fiscal year 1988-89 Welfare fraud expenditures to the Medicaid fraud appropriation authority. As a result, the state's accounting records do not accurately reflect the costs of the Welfare and Medicaid fraud programs. If the department had submitted a budget amendment increasing the Welfare fraud appropriation authority for the full contract amount, it could have properly charged the expenditures.

In addition, the billings sent to SRS for fiscal year 1988-89 do not agree with the amount reported on the state's accounting records. Federal regulations require costs be directly related to the specific grant and the primary accounting records should accurately reflect the costs associated with each federal program. The expenditures the department transferred to the Medicaid fraud program were not directly related to that grant and therefore the charges are not allowable. Department personnel indicated they believe it is appropriate to transfer expenditures between the two federal programs because both programs operate under the same contract with SRS.

Furthermore, since the department did not obtain budget amendments to record the appropriation authority for the full contract amount, the department did not request reimbursement from SRS for \$4,545 of the Welfare fraud expenditures. As a result, it used \$4,545 from the state General Fund to pay Welfare fraud expenditures which were the responsibility of the federal government during fiscal year 1988-89. A similar problem was noted in fiscal year 1989-90 which caused the department to use \$690 from the state General Fund to operate the Welfare fraud program. State law, section 17-2-108, MCA, states, "The department shall apply expenditures against non-General Fund money whenever possible before using the General Fund appropriations."

During the audit, we notified the department of our concerns relating to the charging of expenditures to the wrong federal program. The department acted on our concerns and processed budget authority change requests and corrected the expenditures between Welfare and Medicaid fraud programs for both fiscal years. The department also billed SRS for the additional \$4,545 of fiscal year 1988-89 and \$690 of fiscal year 1989-90 expenditures relating to the Welfare fraud program.

Recommendation #A6-1

We recommend the department:

- A. Obtain budget amendments to ensure appropriations are spent in compliance with state law.**
- B. Properly record expenditures for federal programs on the state's accounting records.**
- C. Request reimbursement for all allowable expenditures.**

Response #A6-1

Concur. As noted in the audit report, these oversights have been corrected.

Department of Corrections and Human Services

A7-1 Pharmacy Controls

The Department of Corrections and Human Services (department) contracts for pharmacy services at Montana State Hospital (MSH), Montana Veterans' Home (MVH), Center for the Aged (CFA), and Montana Developmental Center (MDC). The pharmacy contractor maintains records of prescription transactions and bills each institution monthly. Department procedures require each institution to reconcile, on a test basis, the contractor's bills for drugs dispensed to the patients' medical charts to verify whether the amount billed by the contractor is reasonable.

We found MSH and MVH do not complete these reconciliations. MSH personnel take a sample of drugs dispensed according to the pharmacist's bill and compare it to the patients' charts, but differences noted are not reconciled. In fiscal year 1989-90, MSH and MVH paid \$234,875 and \$77,828, respectively, to the contractor for drugs. MSH personnel stated the procedure was still new and has not been a priority. MVH does not have procedures to reconcile bills to the medical charts, even on a sample basis. MVH personnel believe a reconciliation process would be too time consuming based on the complexity of the pharmacists' bills. Inaccuracies in the pharmacists' bills could result in the state paying more than is necessary for drugs.

The department concurred with our prior audit recommendation to establish procedures to verify the drug charges billed by the contract pharmacy. We found MDC and CFA have procedures in place to verify the drug charges on a sample basis. MSH and MVH could contact these units for guidance on how to establish appropriate procedures.

We also observed weaknesses in physical security over the prescription medication at Montana State Hospital. We found three medication carts out of the six we examined were unlocked. The medication room, where the carts are stored, was locked; however, all nurses have keys to this room. Only one nurse on each ward is responsible for dispensing drugs. This is the only nurse who needs to have a key to the prescription medication. We also found some cases where drawers would open even though the

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cart was locked, indicating some carts were not in good working order.

Supervisory personnel were not aware the carts were not always locked and that carts were in need of repair. Personnel indicated repairs had been referred to the contract pharmacist who is responsible for maintenance of the carts, but no one had ensured the repairs were completed. The department concurred with our previous audit recommendation to ensure the physical security of drugs is maintained. Medicaid regulations require all facilities to keep drugs secure except when prepared for administration. Because of the types of drugs kept in the carts, it is imperative they be kept secure to avoid misuse or theft.

Recommendation #A7-1

We recommend the department:

- A. Ensure each facility establishes adequate procedures to verify charges billed by the contract pharmacy.**
- B. Ensure physical security of the drugs at Montana State Hospital is maintained.**

Response #A7-1

- A. Both MSH and MVH have implemented sampling procedures to compare monthly drug charges from HPI to patients' medical records to verify the reasonableness and accuracy of HPI's billing.**
- B. All units have a special medication room where all med carts are stored on each of the treatment units. Personnel have been instructed to ensure that med carts are properly locked when not in use. The only individual with a key to the medications is the medication nurse on each shift. Additional measures taken to enhance the security of the medications is periodic inspections of the med carts. The carts are now being inspected every two weeks by Pharmacy personnel to ensure that they are operating**

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properly. In addition, hospital personnel have been instructed to immediately inform the Pharmacy should problems develop with the carts in between the inspections.

Patient Accounts

The Montana Mental Disabilities Board of Visitors (board) of the Governor's Office acts as custodian for patients at MSH who do not have a legal guardian or custodian. Board personnel working from an office located on the MSH campus receive and disburse money on behalf of patients and account for the money on an individual patient basis. The board monitors each patient's account balance and approves the spending of funds (called a spenddown) so patients remain eligible to receive Medicaid benefits (Catalog of Federal Domestic Assistance [CFDA] #13.714). Checks written by the board are picked up at either the board's office or at MSH patient accounts office by MSH employees who shop for patients' personal items. After the shopping trip is complete, the board or MSH receives copies of purchase receipts, any unspent money, and a completed shopping trip report. The following two report sections discuss problems we noted during our review of this system.

A7-2 Medicaid Eligibility

Three out of five patient accounts we reviewed at the board were for patients who received Medicaid benefits (CFDA #13.714). Of the three Medicaid patient accounts reviewed, we found two instances where patients' asset level exceeded the maximum amount allowed by federal regulations for eligibility for Medicaid benefits. The state Medicaid plan and federal regulations state, the patient "... must be within the resource limit the first moment of the first day of the month to be eligible for any part of the month."

We noted the patients' checking account balances exceeded the maximum level allowed so the patients' were not eligible and should not have received Medicaid reimbursement for the month. Medicaid paid care and maintenance costs of \$4,714 for these patients for the months when their asset levels exceeded the maximum. In one of the cases, a check written by the board to spend down a patient's assets was not completely spent for more than two months. According to Medicaid personnel, if a

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check is written to a patient but the funds are not spent as of the first of the month, the patient would not be eligible for Medicaid for the month since the check would be a countable resource. As a result, this patient was not eligible for two months.

Board personnel indicated they monitor asset levels when the annual re-determination application is submitted to Medicaid and at various times throughout the year. Additional monitoring during the year is not always consistent. Board personnel indicated they understood the asset requirement to mean that a patient's assets must be below the maximum level at all times during the month.

Because the countable assets exceeded the maximum amounts allowed under federal regulations the patients were ineligible for Medicaid benefits. Consequently, we question the allowability of \$4,714 in Medicaid federal assistance. The board should establish procedures to ensure that patients are eligible for Medicaid in accordance with federal regulations.

Recommendation #A7-2

We recommend the Montana Mental Disabilities Board of Visitors establish procedures to ensure patients are eligible for Medicaid in accordance with federal regulations.

Response #A7-2

We concur. As a result of the 1990 audit of the Governor's Office, the Mental Disabilities Board of Visitors contracted for development of a computer software program to account for patient funds. The program was principally developed to automate manual record-keeping for the more than 100 individual accounts for which the Board is responsible.

The program, in addition to tracking all activity in the accounts, will generate a warning report and listing when patients are within \$200 of Medicaid limitations. The report will be avail-

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able at any time during the month, so will allow timely monitoring of patient assets.

We had originally planned that this program would be in use by June 30, 1991. Depending on development time, this may be moved back until August 30, 1991.

A7-3 Patient Employment

The Montana State Hospital operates a patient employment program. The program is certified by the U. S. Department of Labor and allows the employment of individuals with disabilities at special minimum wage rates. During our testing of the patient employment program, we found instances where the program was not operating in compliance with current federal regulations.

Federal regulations define a special minimum wage as a wage based on the worker's individual productivity in proportion to the wage paid to an experienced nondisabled worker performing essentially the same work. MSH pays patient employees a proportionate wage based upon the wage a state employee would earn at a similar entry level job. According to state policy, the entry level job for state employees is normally a six-month probationary position and upon successful completion of the probationary period the state employee is evaluated and promoted to a permanent position. Federal regulations define an experienced worker as one who has learned the basic skills of the work he performs, ordinarily by completion of a probationary or training period. Therefore, the wage for experienced patient employees should be the applicable percentage of the wage of a permanent state employee.

The hospital has set limits on the percent of productivity a patient employee will be paid. For example, patient employees working in the food service, laundry, or as custodians earn up to 65 percent of an entry level wage. Patients working in higher state grade positions, such as maintenance and in the sewing room are paid up to 60 percent of a state employee's wage. We found that a patient working the maximum 60 percent as a maintenance worker actually earns less per hour than a patient working at 65 percent in a lower state pay grade job such as laundry. MSH personnel said the reason for the percent limits is

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due to budget constraints. The annual General Fund budget for the patient employment program is approximately \$125,000. Personnel explained the limits allow more patients to work in the program. Federal regulations do not allow for fixed productivity limits such as the 60 or 65 percent used by MSH. If a worker is operating at 80 percent of the capacity of a regular employee, they should be entitled to payment at 80 percent in accordance with federal regulations. MSH does not have documentation outlining the reason for the 60 to 65 percent limits.

Prior to 1986 the Fair Labor Standards Act required patient employees to be paid not less than one half of minimum wage. The current regulations no longer require this minimum payment level. MSH continues to pay patient employees not less than half of minimum wage regardless of the level of productivity.

When looking at patient payroll records, we noted instances where patient employees' pay rates were not adjusted for the pay raise given to all state employees at the start of fiscal year 1990-91. Payroll personnel said some of the patient employees were overlooked when they changed pay rates for all the other patient employees. MSH personnel indicated they would review payroll since July 1, 1990 and reimburse the patients for the difference in pay rate for hours worked.

The problems discussed above demonstrate the need for MSH personnel to remain up to date on current regulations governing the patient employment program. Personnel should develop written policies describing the operations of the program which comply with current federal regulations.

Department of Corrections and Human Services

Recommendation #A7-3

We recommend the department establish written procedures at Montana State Hospital for the patient employment program to ensure the program complies with current federal regulations.

Response #A7-3

The Director of Treatment Services and the Patient Employment Coordinator are currently reviewing MSH's patient employment policies to ensure the policies are in compliance with current laws and regulations. The review was to be completed 1/1/92 but due to the hospital reorganization and the retirement of the Director of Treatment Services this has not been completed at this time. It will be completed by 6/30/92.

A7-4 Accounting Issues

Section 17-1-102(4), MCA, states, "All state agencies, . . . shall input all necessary transactions to the accounting system. . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. . ." In addition, the Department of Administration, Accounting and Management Services Division, establishes state accounting policy as outlined in the Montana Operations Manual (MOM). We noted the following instances where the activity recorded by the department on the Statewide Budgeting and Accounting System (SBAS) does not comply with state accounting policy and law.

1. During fiscal year-end 1988-89, Institutions Central Office (ICO) established an accrual for revenue due from the Veterans' Administration (CFDA #64.015) for Montana Veterans' Home. When the money related to the accrual was received in fiscal year 1989-90 ICO recorded the cash and eliminated the account receivable. At fiscal year-end 1989-90 the original accrual was reversed by abating revenue and reversing out the account receivable again. As a result, fiscal year 1989-90 revenue and accounts receivable are understated by \$124,482.

Department of Corrections and Human Services

State law and policy provide guidelines for recording revenue. Department personnel indicated they were training someone different to do the entries and the reversal entry was overlooked. A similar issue for the Veterans' Home was addressed in the prior audit report.

2. Montana State Prison did not record revenue and expenditures on SBAS related to Muriel Cubans (CFDA #16.572) federal assistance. Instead of recording revenue and expenditures in the Special Revenue Fund as required by state law, MSP abated expenditures from the General Fund for the amount received. As a result, fiscal year 1989-90 revenues and expenditures in the Special Revenue Fund are understated by \$2,279. In addition, the prison effectively bypassed appropriation controls over this expenditure activity.
3. At MSP, profits generated by sales to inmates are deposited into the Inmate Welfare Account. Prison personnel record the monthly disbursement of canteen profits from the Special Revenue Fund to the Inmate Welfare Account in the Agency Fund as expenditure object #2902 (goods purchased for resale). The transaction represents a transfer rather than an operating expense. As a result of these miscodings, goods purchased for resale in the Special Revenue Fund were overstated and transfer expenditures understated by \$16,198 in fiscal year 1989-90.

State accounting policy requires expenditure transactions to be properly coded to ensure the accuracy and usefulness of information on the accounting records.

4. In fiscal years 1988-89 and 1989-90, the financial schedules of Montana Developmental Center (MDC) included a \$38,802 liability. The liability was recorded in the agency's donations accounting entity with no related asset recorded on SBAS. State accounting policy requires a liability for property held in trust to be offset by an asset account.

During our prior audit we brought this situation to the agency's attention. MDC personnel could not explain why the amount was recorded on SBAS and indicated they overlooked making the correction during the current audit period.

Without all financial activity recorded on the state's accounting records correctly, the quality, consistency, and comparability of the resulting financial information is affected. The type of

Department of Corrections and Human Services

errors noted above could have been detected through a review of SBAS documents before input or a review of month-end SBAS reports.

Recommendation #A7-4

We recommend the department establish procedures to improve the review of accounting documents to ensure the financial activity recorded on SBAS is in accordance with state law and policy.

Response #A7-4

The specific issues impacting MSP and MDC noted in the audit reports have been corrected. SBAS reports are reviewed monthly by central office and Institutions' fiscal staff.

Department of Labor and Industry

A8-1 Unemployment Insurance Assessments

Section 39-51-404(4), MCA, directs the Department of Labor and Industry (department) to collect an assessment on wages subject to unemployment insurance contributions (CFDA #17.225). The statute requires the department to deposit this money in the Special Revenue Fund for administrative use as appropriated by the legislature. In fiscal years 1983-84 through 1988-89, the legislature allowed the department to use these funds only if federal funding for job services fell below specified amounts. Through fiscal year 1987-88, the department had not used any of these funds. In fiscal years 1988-89 and 1989-90, the department spent \$350,000 and \$1,877,429, respectively. The statute also requires the department to transfer any moneys not appropriated by the legislature to the state's Unemployment Trust Fund held in the U.S. Treasury.

During the audit period, the department initially deposited the assessments in a bank account outside the state treasury and recorded them in the Expendable Trust Fund. In addition, the department did not transfer either the excess assessment not appropriated or interest earned on the assessments to the Unemployment Trust Fund during the last two years. The procedure used by the department understates Special Revenue Fund revenue and overstates the Expendable Trust Fund revenue by the amount of assessments collected but not transferred to the Special Revenue Fund. The table below shows the total assessments collected since the implementation of this statute and the interest earned on these assessments. In addition, the table includes the amount transferred and the balances which had not been transferred to the Unemployment Trust Fund at June 30, 1990.

Department of Labor and Industry

Unemployment Insurance Assessments

<u>Fiscal Year</u>	<u>Assessments Collected</u>	<u>Interest Income</u>	<u>Transferred to U.S. Trust Fund</u>	<u>Expenditures</u>	<u>Balance at June 30</u>
1983-84	\$ 1,425,199	\$ 18,911	\$1,420,858	\$ 0	\$ 23,252
1984-85	1,981,841	35,898	1,985,852	0	55,139
1985-86	2,342,560	62,026	0	0	2,459,725
1986-87	2,337,729	169,418	4,000,000	0	966,872
1987-88	2,390,527	131,623	1,269,657	0	2,219,365
1988-89	2,219,020	165,847	0	350,000	4,254,232
1989-90	<u>2,634,035</u>	<u>283,762</u>	<u>0</u>	<u>1,877,429</u>	<u>5,294,600</u>
Totals	<u>\$15,330,911</u>	<u>\$867,485</u>	<u>\$8,676,367</u>	<u>\$2,227,429</u>	

Source: Compiled by the Office of the Legislative Auditor

State law requires the department to transfer assessment moneys and the interest on it to the Unemployment Trust Fund if the moneys are not appropriated by the legislature for use by the department. We calculated the department should have transferred \$5,236,261 at fiscal year-end 1989-90 to comply with this law. The amount to be transferred includes the balance at June 30, 1990, less the difference between the fiscal year 1989-90 appropriation of \$1,935,768 and the \$1,877,429 spent.

Recommendation #A8-1

We recommend the department transfer funds in excess of the appropriated amounts to the Unemployment Trust Fund as required by state law.

Response #A8-1

Do not concur. Current state laws are not clear on this issue. We attempted to get clarification during the 1991 Legislative Session via House Bill #124. That Bill did not pass. However, language incorporated into House Bill #2 made it clear that all unappropriated revenue to and fund balance in the unemployment insurance administrative tax account is appropriated to a reserve fund.

Department of Labor and Industry

A8-2 Revenue Classification

The department classified interest earnings on the state's unemployment insurance balance in the U.S. Unemployment Trust Fund as federal assistance rather than interest earnings (CFDA #17.225). In addition, the department classified reimbursements of benefits paid to federal employees as employer contributions rather than as federal assistance. As a result, the department understated investment earnings in the Expendable Trust Fund by \$4,800,337 and \$6,439,414 in fiscal years 1988-89 and 1989-90. Department records overstated premium contributions and federal assistance revenue in the Expendable Trust Fund by \$3,069,000 and \$1,731,337 in fiscal year 1988-89 and \$2,980,000 and \$3,459,414 in fiscal year 1989-90, respectively. The misclassification of these revenues by the department also causes misstatement of revenue amounts on the state-wide financial statements. We discussed this misclassification problem in our prior audit.

The following table shows the misstatements.

<u>Expendable Trust Fund - Revenue</u> <u>Over(Under) Statement</u>		
	<u>Fiscal Year</u> <u>1988-89</u>	<u>Fiscal Year</u> <u>1989-90</u>
Investment Earnings	\$(4,800,337)	\$(6,439,414)
Contributions and Premiums	3,069,000	2,980,000
Federal Assistance	1,731,337	3,459,414
Source: Compiled by the Office of the Legislative Auditor		

A management official said the department has used the same classifications for revenue for many years. Another official said classification changes should be made at the start of a fiscal year to avoid confusion and further errors. The department has not yet made the changes.

Recommendation #A8-2

We recommend the department record revenue in the appropriate classes on the state's accounting records.

Response #A8-2

Concur. The department submitted documents to the state accounting system on June 14, 1991 and July 11, 1991 to implement this recommendation.

A8-3 Fund Balance

Two of the department's federal Special Revenue Fund accounting entities did not have a zero fund balance at fiscal year-end during either year of the audit period. These accounting entities include revenue and expenditures related to federal funds received from the U.S. Departments of Labor, Housing and Urban Development, Agriculture. The department earns federal revenue as valid expenditures are incurred. Revenue must be accrued for federal payments earned but not yet received and deferred for federal advances received but not yet earned. Under state accounting policy, proper accounting results in a zero fund balance at fiscal year-end because federal revenues earned equal expenditures. Recorded revenue exceeded expenditures in federal Special Revenue Fund accounting entities by \$257,406 and \$198,706 in fiscal years 1988-89 and 1989-90, respectively. A department official indicated accounting personnel did not determine which grant revenue should be deferred in time to adjust the accounting records. We discussed this issue in our prior audit report.

Recommendation #A8-3

We recommend the department develop reconciliation procedures to properly match federal revenue and expenditures on the state's accounting records.

Department of Labor and Industry

Response #A8-3

Concur. The department complied with this recommendation at 1991 FYE and will strive to continue zero fund balance in FY 1992.

A8-4 Computer Access Controls

In the performance audit of the Employment Services Program conducted by our office (#90P-31), we identified weaknesses related to general controls over access to equipment and data files. When general control weaknesses exist, the risk of system misuse, malfunction, or change increases, and specific application controls may be ineffective. In this audit, we reviewed electronic access controls established by the Department of Labor for the Unemployment Benefits and Employer Tax Systems (CFDA #17.255). We noted several areas where security over programs and data for these systems can be improved.

Terminated Employees

We reviewed procedures for suspension of access for employees terminated by the department. When an employee terminates, the agency should suspend the employee's access to systems and data. We noted thirteen terminated employees still had access two weeks after their employment by the department had ended. None of the individuals had used their approved identification to access the systems after termination.

When access to critical applications is not suspended for terminated employees, unauthorized use or alteration of data and programs could occur. According to agency personnel, the security officer does not receive notification of terminations under current department procedures. If the security officer were notified of terminations, the officer could eliminate the access of terminated employees to department data processing systems.

BEAR System Access

Unemployment Insurance benefits are tracked on the Benefit Application Rewrite (BEAR) system. This system provides for seven levels of access. The department attempts to match the access levels to employee job duties. During audit work we noted each access level is cumulative. An individual with access to the seventh level has access to all prior levels. The department should limit access to data files to those individuals authorized to process or use the particular data. Since the system does not limit access to the specific level, individuals have access to information which is not needed for the performance of their job.

Department personnel indicated the system design does not link access to specific data screens required to perform work at each level of access. A department data processing manager estimated the cost of reprogramming the system to provide screen specific access is \$1,900.

Programmer Access

Department of Labor computer programmers can change data in some critical datasets, and operations employees can change programs for critical applications. Good data processing controls require segregation of operations and programming functions. When employees can change both programs and data, the risk of errors and irregularities occurring and not being detected increases significantly.

Department personnel indicated the programmers need access to data to ensure all systems process correctly. The systems are several years old and have developed "bugs" which cannot be eliminated without programming. The department can reduce the risk of irregularities by logging and tracking programmer access to data files. Management was not aware that operations employees have access to programs, and considers this access unnecessary.

Department of Labor and Industry

Unprotected Tape Files

Access rules are used by the department to provide security over mainframe applications. During our examination, we identified eight tape files which are not protected by appropriate security rules. Six of these tapes contain confidential W-2 information. The other two contain unemployment insurance benefits programs. The tapes could not be protected because the file descriptions do not follow naming conventions. Department personnel indicate they believed the tape files had been placed in archives and access eliminated. The department should ensure access to programs and data files is limited to those individuals authorized to process or maintain particular systems. In the Employment Service Program performance audit, we recommended the department establish written policies and procedures which adequately document the implementation and maintenance of general controls. The department could implement the recommendations made here as part of that policy revision.

Recommendation #A8-4

We recommend the department:

- A. Develop a system to suspend computer access of terminated employees.**
- B. Reprogram the BEAR system to limit access to specific data.**
- C. Establish review procedures to limit individual access to files to the level required for the individual's work.**

Response #A8-4

- A. Concur.** The department has implemented procedures to notify the proper Security Officer on employee terminations.
- B. Partially concur.** Although the goal is admirable, it is not practicable with this older system. The UI-Benefits Bureau estimates that they have 70 pending program change

requests, many of which have priority interest over the system change to accommodate this deficiency. The Bureau is quick to add that security violations on the BEAR have been virtually nonexistent to date. They believe that the two levels of security access may be a good reason why the system appears to be pretty well protected.

- C. Partially Concur. We agree where it is practical to do so. Unfortunately, these are some older major systems that would be cost prohibitive to change at this time. Future replacement systems will have much improved access controls. In addition, the department had recently implemented an Automation Security policy which addressed these concerns.

Federal Compliance

The department spent \$30,422,966 and \$30,127,505 in federal assistance moneys in fiscal years 1988-89 and 1989-90, respectively. The federal government provides assistance for administration of the unemployment insurance and job service programs and to fund various job training programs. In the next four sections, we discuss issues related to the use of federal funds.

A8-5 Dislocated Workers Training

Federal regulations require at least 50 percent of the Economic Dislocation Worker Adjustment Assistance Act (EDWAA) grant funds (CFDA #17.246) be expended for retraining costs. In fiscal year 1989-90, the department and its subgrantees spent only 47 percent of the substate funds for retraining. As a result of the department's noncompliance with federal law, we questioned costs of \$19,081 associated with the EDWAA grant. Department personnel stated that this oversight occurred because they did not consider the administrative portion of the grant when they calculated the 50 percent for retraining. Department officials stated that they are adjusting fiscal year 1990-91 spending so the 50 percent is achieved for the two years ended June 30, 1991 on a combined basis.

Department of Labor and Industry

Recommendation #A8-5

We recommend the department adopt procedures to ensure compliance with federal training grant regulations.

Response #A8-5

Concur. The department has adopted such procedures. The Research, Safety and Training Division monitors EDWAA cost limitations on a monthly basis.

A8-6 Federal Financial Assistance Schedule

Department accounting personnel prepare a Schedule of Federal Financial Assistance each fiscal year. The schedule shows expenditures of federal funds by type of assistance, listed according to a catalog number assigned by the federal government. The Governor's Office compiles schedules from each state agency into a single Schedule of Federal Financial Assistance for the state of Montana. We express an opinion on statewide federal financial assistance schedules in our biennial Single Audit report. The Governor's Office corrected the statewide schedule of federal financial assistance for the misstatements noted below.

Federal regulations require recipients of federal assistance to report all federal moneys expended in a given fiscal year, including prior year items and indirect costs. The reported expenditures should be supported by the state's accounting records. In the following instances, the department did not allocate expenditures accumulating in the JTPA Title IIA Program to two other grant programs which actually received the benefits of these expenditures. Recording this allocation of expenditures would have more accurately reported financial activity in the three grant programs on the state's accounting records and the Schedule of Federal Financial Assistance in fiscal year 1989-90. The overstatements (understatements) appear below.

Department of Labor and Industry

<u>CFDA #</u>	<u>Assistance Type</u>	<u>Misstatement</u>
17.250	JTPA Title IIA	\$ 86,953
17.802	Veterans Title IV C	(3,575)
17.246	JTPA Title III	(83,378)

A department budget officer said the classification difference resulted from the allocation of administrative costs. The department allocates certain administrative costs to each federal assistance category on a quarterly basis. Department personnel did not perform the allocation for the last quarter of the fiscal year. The officer said an allocation of costs at fiscal year-end would include most but not all costs since the final amount may not be known. However, the department could improve the accuracy of the Schedule of Federal Financial Assistance and the state's accounting records by allocating costs at year-end. The department's reports to the federal government for the grants included proper allocation of costs.

Recommendation #A8-6

We recommend the department estimate, allocate, and record administrative costs between federal programs at fiscal year-end.

Response #A8-6

Concur. Extra effort was given last state fiscal year-end to make the allocation between assistance programs. After the fact, we do prior year adjustments as necessary for last minute issues.

Department of Military Affairs

A9-1 Unauthorized Telephone Use

The Department of Military Affairs (department) has a large number of personal long distance telephone calls billed to the state and reimbursed by employees. State policy limits the use of state telephones for long distance personal calls, except in specific situations, to collect, credit card, or calls billed to a home number.

Department personnel indicated they were aware of the problem and conducted an internal review during fiscal year 1989-90. The review concluded "between \$10,000 and \$12,000 would be expended during fiscal year 1989-90 for unauthorized telephone calls without reimbursements being made."

To solve the problem, the department established a complex system of review and approval of the telephone bills. The department's policies establishing the review system were issued on May 1, 1990. Although the solution addressed detecting the calls, it does not limit the personal calls to those provided for by state policy. We reviewed the reimbursements for personal telephone calls after implementation of the policies and noted no decrease in the number of calls being made.

We commend the department for its efforts in detecting and seeking reimbursement for personal calls. However, state policy does not allow personal long distance calls to be charged to state telephones. The department should combine the review procedures with efforts to discourage personal long distance calls.

Recommendation #A9-1

We recommend the department establish and enforce policies limiting long distance telephone calls to those allowed by state policy.

Response #A9-1

We concur. Additional effort will be taken by state and federal personnel responsible for communications to enforce the procedure on limiting long distance telephone calls.

A9-2 Duplicate Payments

We identified instances in fiscal years 1988-89 and 1989-90 where the same invoice from a vendor was paid twice. We found 15 instances where vendors either returned the second state warrant or sent a check to repay the duplicate payment. The returns amounted to over \$14,000 in the two fiscal years covered by our audit. We identified these duplicate payments because the vendors returned the money. We were not able to determine if additional duplicate payments were made and the money was not returned.

Discussions with agency personnel indicated the department does not have a system to prevent duplicate payments. The department could minimize duplicate payments by:

1. Paying only original invoices, not invoice copies or statements.
2. Logging vendor invoice numbers paid and checking to ensure that payment has not already been processed for each invoice.

The department should establish a control system to ensure charges for goods and services are not paid twice.

Recommendation #A9-2

We recommend the department establish a system of controls to minimize duplicate payments for the same materials and services.

Response #A9-2

The department has implemented a check and balance system monitored by the program manager of the Army Guard Program.

Department of Military Affairs

This system tracks all payments allowing new invoices to be checked to see if payment has already occurred.

A9-3 Revenue and Expenditure Misstatements

Veterans' Affairs (VA) Division did not record revenue and expenditures of \$2,837 and \$657 in fiscal years 1988-89 and 1989-90, respectively. VA received services from individuals enrolled in the Veterans Job Training Act (CFDA #17.802). The positions were to be funded 50 percent from General Fund and 50 percent from federal sources. The wages were initially paid 100 percent from the General Fund. When the federal share was received the money was deposited in the General Fund and 50 percent of the original expenditures removed.

Revenue and expenditures in the amount of the federal share should have been recorded in the fund which pays the employee's wages. As a result, Federal Assistance revenue and personal services expenditures in the Veterans' Affairs program are understated by the amounts shown above. Department personnel indicated they did not believe the amount of money involved warranted the effort to obtain budget authority and record the revenue and expenditures.

Recommendation #A9-3

We recommend the department ensure revenue and expenditures are properly recorded.

Response #A9-3

We concur. Revenue and expenditures will be properly recorded.

Department of Livestock

A10-1 Schedule of Federal Financial Assistance

The Department of Livestock (department) submits a schedule of federal financial assistance to the Governor's Office for inclusion in the Federal Single Audit Report. The directions from the Governor's Office state the schedule should include total current year, prior year and indirect or administrative expenditures related to the department's federal assistance programs. The department did not report prior year expenditures and indirect costs for its Meat and Poultry Inspection program (CFDA #10.025) of \$17,504 and \$18,504 on its fiscal year 1989-90 and 1990-91 schedules of federal financial assistance. By not reporting these expenditures on the schedule, the department is not providing accurate information to the Governor's Office and the federal agencies who use the Single Audit Report. The Governor's Office corrected the statewide schedule of federal financial assistance for these misstatements.

Recommendation #A10-1

We recommend the department comply with Governor's Office directions in preparing its schedule of federal financial assistance.

Response #A10-1

The department concurs with this recommendation and will comply with directions in preparing its schedule of federal financial assistance. The funds noted in the audit report are indirects received from U.S.D.A. - F.S.I.S. The department did report to the Governor's Office, but did not include the federal indirects it received as no where in the instructions does it mention these funds were to be included. All federal funds will be reported to the Governor's Office in subsequent fiscal years.

Department of Transportation

Federal Compliance Issues

The Department of Transportation (department) received federal assistance of \$97,097,925 and \$106,284,379 in fiscal years 1989-90 and 1990-91, respectively. The federal assistance was primarily for the Highway Planning and Construction Program (CFDA #20.205). Because this is a major federal program, we are required to test the department's controls over the program and compliance with related federal regulations. To comply with federal audit requirements, we must report all exceptions regardless of materiality. We noted three areas where the department could establish more effective controls to ensure compliance with requirements related to this federal program.

A11-1 Payroll Additive Rates

The department incurs payroll costs such as vacation, sick, and military leave; jury duty; Public Employee Retirement System and union pension trust contributions; industrial accident, health, and unemployment insurance; and FICA. These costs are recorded on the Statewide Budgeting and Accounting System when paid. Such costs can be charged directly to the projects that incurred the costs, or indirectly through an overhead charge. It is not cost beneficial to keep track of these charges by project. For example, vacation and sick leave may be earned by a construction worker on several different projects, but taken and paid while the worker is on another project.

The Federal Highway Administration (FHWA) has agreed to allow the department to recover these overhead costs by charging a percentage of salaries directly chargeable to each project. This percentage is called the payroll additive rate. There are several ways these rates may be computed and applied. However, the rates must be consistently computed and applied in accordance with the method approved by FHWA.

Calculation Errors

We reviewed the department's calculation of the payroll additive rates for fiscal years 1989-90 and 1990-91 to determine if the rates were calculated in accordance with the procedures approved by the FHWA. We found the department followed the procedures described except for (1) making a \$199,000 mathematical error in calculating the overrecovery from fiscal year

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1988-89; (2) using a two year, rather than three year, average when calculating estimated leave taken for fiscal year 1990-91; and (3) subtracting the estimated union pension trust amounts of \$328,686 and \$47,435, from the allocation base for fiscal years 1989-90 and 1990-91, respectively.

As a result of these deviations from the written procedures, the rates were miscalculated as shown below.

<u>Payroll Additive Rates</u>		
<u>Fiscal Year and Accounting Entity</u>	<u>Calculated Rate</u>	<u>Correct Rate</u>
Fiscal Year 1989-90:		
Special Revenue Fund	39.67%	39.93%
Equipment Bureau	45.94%	45.30%
Motor Pool	37.02%	35.65%
Fiscal Year 1990-91:		
Special Revenue Fund	38.34%	38.65%
Equipment Bureau	49.76%	48.86%
Motor Pool	59.37%	57.20%
Source:	Compiled by the Office of the Legislative Auditor from Department of Transportation records.	

Allocation Base

As previously noted, the written procedures state the allocation base should be budgeted salaries less estimated leave taken. The department consistently used budgeted regular salaries and excluded overtime and differential pay when calculating the allocation base. However, the department applied the rate calculated with this base to all salaries, including overtime and differential pay. Because the department applied the rate to a larger base than that used to calculate the rate, the department overrecovered overhead payroll costs from the federal government.

The department recovered \$6,646,912 and \$6,658,977 in Special Revenue Fund payroll overhead costs in fiscal years 1989-90 and 1990-91, respectively. Had the department applied the correct rates to the allocation base described in its written procedures, it would have recovered approximately \$900,000 less in fiscal year

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1989-90 and \$800,000 less in fiscal year 1990-91 from the FHWA. Since the department's procedures require it to carry forward cumulative overrecoveries or underrecoveries from previous years, the situation should be corrected in future rate calculations.

Summary

Because the employees who calculated the payroll additive rates for fiscal years 1989-90 and 1990-91 no longer work for the department, department personnel could not tell us why these errors occurred. We noted the payroll additive rate calculations were numerous, nonrepetitive, and performed manually. Although such calculations are prone to error, they did not appear to have been reviewed. The department should implement more effective procedures, including supervisory review, to ensure the rate is calculated accurately and in accordance with written procedures. The department could also develop an automated spreadsheet to improve calculation accuracy. When establishing and applying the rate in the future, the department should ensure that the base to which the rate is applied for billing purposes is the same as the base which was used to establish the rate.

Recommendation #A11-1

We recommend the department:

- A. Implement procedures, including supervisory review, to ensure the payroll additive rate is calculated accurately and in accordance with written procedures.**
- B. Apply the payroll additive rate to the same base that was used to calculate the rate.**

Response #A11-1

Concur. The department will make appropriate adjustments to the written procedures, review process, and calculations in agreement with the Federal Highway Administration and Office of the Legislative Auditor when calculating the fiscal year 1993 rates.

A11-2 Equipment Usage Charges

The department's Equipment Management System is designed to provide management information and charge projects for equipment use. The department charged \$924,012 and \$926,652 for equipment use on projects financed partly with federal funds in fiscal years 1989-90 and 1990-91, respectively. Approximately 80 percent of these charges are reimbursable federal expenditures. Federal regulations require the accounting records be supported by source documentation, such as time records and operator usage reports.

The input for this system is an operator usage report completed for each equipment unit each biweekly pay period. The report details the hours the equipment unit was used by project, day, and operator, as well as the odometer or hourmeter reading at the beginning and ending of the pay period. The hours the equipment was operated is used to prorate the usage from the meter readings to the various projects charged.

Department policy requires supervisors review and initial the operator usage reports to indicate the approval of charges to the various projects. This review and approval is designed to ensure accurate charges to projects on which the equipment was used. We have recommended in the previous two audits of the department that the department implement policies requiring review and approval of operator usage reports.

Our sample testing of equipment usage transactions from fiscal years 1989-90 and 1990-91 revealed that 41 operator usage reports out of 110 tested were not signed and an additional 23 were initialled by someone other than the supervisor who signed the operator's time sheet. Department personnel indicated they had designed a new operator usage form with a specific space to document supervisory review, but that some districts continued to use the old form until supplies of the form ran out. None of the 110 operator usage reports we reviewed had a specific space to document supervisory review.

We also found 20 charges to projects out of 136 tested were not supported by the operator usage reports which generated the transactions. For example, we observed mathematical errors in

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totalling hours by project, which affected the allocation of charges to projects. These 20 transactions resulted in 13 projects being overbilled \$296.68 and 7 projects being underbilled \$288.95. Department personnel attributed the errors to turnover in data entry and accounting personnel and the volume of operator usage reports they have to input.

We compared operator usage reports to the operators' weekly time sheets for the related pay period and noted discrepancies for 78 of the 135 transactions tested. The most frequent discrepancies include reporting an operator used an equipment unit on a day the operator was on holiday, vacation, or sick leave and charging more hours of equipment usage on a project for a day than the operator charged to the project that day on the time summary. In some instances it appeared that the time sheet and operator usage report originally agreed, but one or the other was changed by the supervisor. If a change is made to one of these documents, the supervisor should check the other document for similar errors.

It takes time to complete, review, and input data from the operator usage reports and it appears the data may not be accurate. If the department continues with this method of charging projects for equipment usage, it should implement more effective control procedures, such as supervisory review and approval of operator usage reports and comparisons of operator usage reports to time sheets, to improve the accuracy of information recorded on the operator usage report and input to the Equipment Management System. In our performance audit report on the department's Equipment Operations Program and Motor Pool (91P-28), we discuss the department's need to revise its Equipment Management System.

Recommendation #A11-2

We recommend the department fully implement effective control procedures to ensure equipment usage charges are proper and adequately supported.

Response #A11-2

Concur. The department does have control procedures, but they are not being followed. We will follow-up, make appropriate adjustments, and ensure that field personnel comply with established procedures.

A11-3 Incorrect Federal Billings

Project Prorata Errors

The department receives notification from FHWA of agreements to participate in specific projects and the amount FHWA will share in each project. Accounting personnel calculate the percentage of the federal share and enter this percentage, or "prorata", on the Billing Voucher system so FHWA can be billed for its share of each project.

During our testing of 32 projects, we noted incorrect proratas were used for two of the projects. One of these errors was identified in a March 1990 letter, in which FHWA notified the department of 32 prorata errors on the February 27, 1990 billing voucher. FHWA personnel indicated in the letter that, although most of the errors did not seriously impact the billing process, there were many errors that should not happen.

Department personnel corrected the proratas after the errors were brought to their attention. The differences in the proratas used and the correct proratas was as much as 11.49 percent. The cumulative effect of the errors identified was an underbilling of \$24,532 for 16 projects, an overbilling of \$9,314 on 12 projects, and no effect on 5 projects.

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Contractor Payment Coding Errors

As part of the contractor payment process, the accounts payable section codes the payment document. The payment document is approved in construction by the contractor payment section. Part of the coding involves designating the class of the project, which signifies whether FHWA is participating in the project. We noted one contractor payment that was improperly coded in accounting and the error was not subsequently detected. As a result, the department requested and received reimbursement for 91.20 percent, or \$60,013, of the project costs from FHWA although the project was 100 percent state funded. The initial error of \$56,181 occurred September 20, 1990 and was not corrected until June 28, 1991, so FHWA was overbilled for 9 months on this project.

Summary

Department personnel stated the errors may have occurred because of keypunch errors when the proratas were input and because of a misunderstanding between accounts payable and the contractor payment section regarding which is responsible for properly coding contractor payments. Department personnel indicated they rely on FHWA, and on the department's final project review, to identify such errors. It is the department's responsibility to establish and maintain an effective internal control structure, including internal controls used in administering federal financial assistance programs. The department should establish procedures, such as supervisory review, to ensure proratas are input accurately. The department should clearly fix responsibility for coding contractor payments.

Recommendation #A11-3

We recommend the department:

- A. Establish control procedures for preventing and detecting prorata input errors.**
- B. Clearly fix responsibility for preventing and detecting contractor payment coding errors.**

Response #A11-3

- A. Concur. The department implemented a manual review process to detect prorate input errors. Also, an EDS (Electronic Data Sharing) committee is working with FHWA to research and improve the sharing of data between us through electronic transfer methods. This involves input of this kind of data on-line and implementing a review and approval process.
- B. Concur. A memo of understanding and procedures dated October 1991 between the Contractor Payment Section and the Accounts Payable Section clearly defines:
1. Responsibility for coding contractor payments;
 2. Procedures for contractor payment; and
 3. Responsibility for supervisory review.

The \$66,000 contractor payment error detected is 0.0002 or 0.02% of the \$282,820,668 of total contractor payments for the audit period. We feel the error and magnitude of the error is not significant.

General Controls

General controls are developed by the computer user to protect assets and limit losses. In our review of the Department of Transportation's general control environment we noted weaknesses in controls. These issues may impact the Highway Planning and Construction Program (CFDA #20.205) and are discussed in the following sections.

Access Controls

Access controls provide electronic safeguards designed to ensure computer system resources are properly used. Logon identification numbers (IDs) and passwords control access to the department's computer systems, computer programs, and computer data. System and application programmers have the highest degree of technical expertise in the computer processing facility and therefore they play an important role in maintaining the system. However, managers have the primary responsibility for maintaining adequate controls. To ensure system integrity,

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management should install appropriate controls which may require some trade-off of system performance.

The department's security officer writes rules which limit access to specific areas of the system. Assigning limited access based on job duties/requirements also facilitates checks and balances in the system. This approach prevents users from inadvertently or willfully executing programs or changing data unrelated to their job. In the case of programmers, access to programs would be authorized and access to data would be denied. Programmers can also be prevented from executing the programs they have written. In this environment, no one individual has total control.

Access controls permit separation of the input/output function and the programming function. The Input/Output controller can not alter data or write or change programs. He/she must have access to all production programs and data files in order to manage, control, and log the flow to and from the computer. Programmers can write programs, but they should not have access to the data or the production programs. The problems described below increase the potential for inappropriate use of the department's programs and data.

A11-4 Programmer's Access Should Be Restricted

The department access rules give programmers access rights to master data files of systems they support. Systems included are payroll, stores, maintenance management, equipment management, motor pool, federal billing voucher, and construction progress estimate.

Because we found no compensating controls and to ensure program integrity, programmers should not have access to these data files. At a minimum, programmer access to these files should be logged and reviewed. Because programmers have unlimited and unlogged access to master data files, the potential exists for unauthorized and untraceable manipulations of critical information. For example, under the existing access rules, programmers can enter or approve claims for payment, or edit or delete data from the master files. In addition, data in the CARES file, which provides input to all major department applications, could be altered and therefore corrupt all related applications.

Users stated programmers need access to facilitate the system support function. Programmers can support their assigned systems without these access rights. For example, access can be temporarily assigned on a case-by-case basis.

Recommendation #A11-4

We recommend the department remove programmer access rights to master data files or log and review programmer access to these files.

Response #A11-4

Concur. We have limited access rights to master data files to the programmer(s) responsible for each application. Other programmers no longer have access as they did in the past.

It should be noted that programmers having access to master data files were granted that access by the primary user or owner of the application system involved. This is documented on the Department's Data Security form 501.

We will log and review programmer access to those master data files deemed to be sensitive or critical.

A11-5 Programmers as Backup Input/Output Controllers

Department personnel employed as Input/Output (I/O) controllers submit jobs/programs to process and update data for generating reports. In order to perform this job function, controllers require read access to production programs and read/write access to data files. In our review, we found department programmers also had unlimited access rights in order to backup the I/O function. As a result, programmers can and do submit jobs when I/O controllers are not available. Programmer and I/O controller functions should be separate. Combining the rights of these functions diminishes the control obtained by having separate individuals assigned to these jobs. Allowing programmers unlimited access to production programs and data

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files allows them access to the entire process and increases the risk of undetected material errors or irregularities.

The security officer stated a group containing all programmers was created and given I/O access rights so the rights could be easily deleted as a group. Programmers have had these rights for over two years. Department personnel said unexpected employee turnover made using programmers necessary until the department completed training for newly hired I/O controllers. Adequate cross training between controllers and complete job documentation would smooth the transition and eliminate the need to use programmers as backup I/O controllers. The department indicated that cross training and job documentation are currently in process.

An alternative to giving all programmers universal I/O access would be to select someone from the user support group. If necessary, the department could select one programmer as backup and monitor his/her access.

Recommendation #A11-5

We recommend the department:

- A. Delete the universal I/O access for all programmers.**
- B. Adequately cross train Input/Output controllers.**

Response #A11-5

- A. Concur. This recommendation has been implemented. Our programmers no longer have access to I/O procedures for job submission.**
- B. Concur. This recommendation has been implemented. Our input/output controllers are cross trained.**

A11-6 Monitoring Access Controls

Mainframe access restrictions placed on each application are agreed upon among the user, programmer, and resource manager. This agreement is documented and given to the department security officer to write the access rules. Once written, these rules are not reviewed to see if they achieve the agreed upon access restrictions. Our review identified some rules that did not support or provide the agreed upon access. A periodic review by the department should be conducted.

Once rules are in place, the computer system can be relied upon to execute them consistently. In addition, it can identify users who violate the rules. The department receives, reviews, and follows up on reports of rule violations and unauthorized access attempts for its state mainframe applications. At a minimum the department should use the same process for its sensitive or critical minicomputer applications. Currently, the department has the ability to generate a similar access report for its minicomputer applications. However, access assignments for information maintained on the minicomputers are not assigned to unique individuals. Access assignments are made to user groups, making it impossible to track individual access. This weakness is further addressed in issue A11-8.

Recommendation #A11-6

We recommend the department:

- A. Periodically review established access rules.**
- B. Generate, review, and follow up on access violations for sensitive or critical applications on its minicomputer systems.**

Response #A11-6

- A. Concur. Our Information Resource Management Coordinator will update application data security forms and review the associated ACF2 access rules once a year.**

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- B. Concur. We provide users the capability to restrict access to their applications when needed in both the ORACLE and non-ORACLE environments on the VAX. An unauthorized user trying to access a file will not be granted access. We have the capability to log access violations (i.e., attempts at access) in these environments but feel it would be time consuming and unproductive considering the numerous user applications and systems involved. We will pursue this recommendation if and when sensitive or critical files are added to the VAX environment.

A11-7 Process for Updating Access Rules Should Be Improved

In the mainframe access control system, access rules are based on individuals, work locations, and groups. When individuals start work at the department they are assigned to a group with the same computer access needs. Within the group they are assigned to a work location with a logon ID and password unique to the individual. For example, a person may be part of the group that inputs on-line claims transactions from the Equipment Bureau location. They can access on-line claims but they can only input Equipment Bureau transactions. Transactions they enter are identified by their logon ID.

When an employee terminates the department, the security officer removes him/her from the group and his/her logon ID is suspended. When an employee changes work location within the department, the Personnel Bureau notifies the security officer of changes in location or employment status. The security officer then records the change on the system. The security officer believed this method worked and changes made to an employee's work location were recorded by all related applications.

However, the On-Line Claims application incorporates its own security access mechanism. Restrictions for logon and work access location rules specific to the On-Line Claims system are controlled by the On-Line Claims application. An employee's work location must be changed within that system. Access changes to On-Line Claims must be made by the Accounting Bureau. The Accounting Bureau was not aware of this internal security requirement. As a result, several employees who had

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changed jobs within the department could still process activity in their former work area.

Recommendation #A11-7

We recommend the department security officer notify Accounting Bureau of all employee work location changes which effect access to the On-Line Claims system.

Response #A11-7

Concur. The intent of this recommendation has been met. Our Human Resources Office now notifies the Accounting Services Bureau, Accounts Payable Section of employee changes in location or employment status.

A11-8 Employees Share Logon IDs and Passwords

A logon ID unique to a specific computer user and protected by a password known only to that user provides a good means of limiting access to appropriate users and helps provide accountability for work done. We found the department's use of this control is ineffective for two reasons: 1) the department assigns group logon IDs, and 2) employees share their individual user logon IDs with fellow employees.

Group logon IDs eliminate system logon accountability. Using group logon IDs allows unauthorized and untraceable access to data and programs and increases the effect of a change when one member of the group leaves or transfers. Each employee requiring computer access to perform his/her job duties should be assigned a unique logon ID.

In field locations, the department assigns one logon ID to user groups at that location. Those using the login ID must agree on a single password. Diverse groups access several different applications maintained on the state mainframe. Some groups need to share common files to complete projects. Currently the groups using Oracle software and Computer Assisted Drawing (CAD) software are assigned one logon ID per project to facilitate

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sharing files. This could be accomplished by using unique logon IDs for each user and providing appropriate file access.

We also found instances of employees working together sharing the password for their assigned logon ID. The employees involved may not understand the impact of disclosing their password. As discussed above, shared IDs and passwords also eliminate accountability. Employees share logon IDs and passwords so they can help each other with their daily duties as well as provide backup in case of absences. We believe this could be better accomplished by establishing appropriate access assignments to each employee through a unique logon ID.

Recommendation #A11-8

We recommend the department:

- A. Discontinue use of group logon IDs.**
- B. Assign adequate access to each logon ID to permit each employee to do his/her job.**
- C. Emphasize to employees the importance of keeping passwords secure.**

Response #A11-8

A. Concur. It is the Department's goal to reduce group ID's. For the most part, we have eliminated group ID's for our mainframe and VAX computer systems. There are two areas where this has not been achieved:

1. Series 1 Computers - Our Series 1 computers will be phased out in about one year. The job related group IDs that exist today will cease at that time.
2. CADD on the VAX 785 - Will be replacing our VAX 785 server in the next six months. At that time, we will require unique ID's for all CADD users.

- B. Concur.
- C. Concur. We will reemphasize the importance of keeping passwords secure in our computer training sessions, management level meetings, field visits, and manuals. This will be a topic of discussion in our future Computer Users Group meetings. A management memo on this subject will also be issued to all offices.

It should be noted that no matter how much security we build into our systems, there is no way to prevent people from sharing their IDs and passwords with one another.

A11-9 Input/Output Controller Responsibilities

Department Input/Output (I/O) controllers submit production run jobs. At the request of the system user, they submit the job for processing; make certain all the data files are available; resolve problems that come up during processing; follow up on data errors detected during processing; and ensure proper distribution of the output.

In evaluating the I/O controller responsibilities and the department's implementation of procedures, we found the I/O manual is incomplete, I/O controllers lack a problem resolution guide, and they do not adequately control output. These issues are discussed below.

The I/O manual does not identify job submission parameters, job abnormal termination resolutions, and job distribution procedures. We found that the jobs submitted by I/O controllers were not fully documented. Each controller was familiar with a set of jobs and only submitted those jobs. No job documentation existed to allow another I/O controller to adequately process a job request in case of employee absence or turnover.

We noted I/O controllers do not require a user to submit a Job Request Form to run a job. On occasion, if the user forgets to request a run at its regular day/time, the I/O controller may run it without any form of request. Use of a job request form will provide I/O operators better understanding of each job, provide efficient distribution of output, and ensure continued operations.

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The job request form should specify which job to run, which data to process it against, and how to distribute the output. The chance of error increases if specific elements of how to process the run are not documented in the I/O manual.

The department should also develop a problem resolution guide as part of the I/O controllers manual. This guide would facilitate consistent, approved solutions to computer operational and/or recovery problems and contain instructions for setup, restart and recovery.

We found computer printouts are not controlled by the I/O controllers. Printouts, except for output for the Accounting Bureau, are placed on the data processing counter for pickup. Because Accounting Bureau printouts may contain confidential material, they are placed on a desk where only accounting personnel are allowed to pick them up. We found in our testing that the output security was not adequate. This could result in misplaced or improperly distributed reports, and the potential release of confidential information to unauthorized individuals. As an alternative to placing the output where it is available to all, the I/O controller should provide it to authorized personnel only or the department should establish a mailbox system.

Recommendation #A11-9

We recommend the department:

- A. Update the I/O controller manual to document a problem resolution guide, procedures for distributing computer output, and a requirement for a complete job request for each job run.**
- B. Establish procedures for appropriate distribution of computer output.**

Response #A11-9

- A. Concur. Manuals do exist for processes that are I/O controller submitted. We will have our I/O Controller**

Supervisor upgrade these manuals to provide more processing documentation, problem resolution information, and output distribution procedures. We will also require users to request special job runs through our E-Mail system. An E-Mail file will be maintained to provide an audit trail for user requests.

- B. Concur. We have already established new security procedures for the distribution of computer output. We have also requested a bin system be built to provide complete output security.

A11-10 System Maintenance Should Be Controlled

Programmers develop new systems based on approved written requests from the user. When the programmer completes the system, it is documented, reviewed and approved. Subsequent system enhancements follow the same procedures. However, the department does not require the same process for maintenance changes.

For the most part, maintenance changes do not alter the functionality of the application. The change usually reflects the correction of a mistake in the initial coding. Although the department does require programmers to document and report maintenance changes monthly, the department's procedures decrease the effectiveness of its system development procedures. No procedure exists to ensure all maintenance changes are appropriate, authorized, documented, and reported to management.

Maintenance changes should be subject to the same request approval, documentation, review and approval corresponding to system enhancements. This will provide consistency in evaluating job development adequacy.

Recommendation #A11-10

We recommend the department establish procedures to authorize and review system maintenance changes.

Response #A11-10

Concur. All changes made to existing systems for the purpose of enhancing or modifying those systems are supported by authorized user work requests. For "bugs" encountered in a program, changes related to these will be reported in the DP Project Management System as dynamic projects.

A11-11 Contingency Planning

Contingency planning is a basic element of safeguarding computer systems and information resources. Contingency planning involves collecting plans, procedures, arrangements, and information which are completed, compiled, and held in readiness for use in the event of a disruption of normal activities. A contingency plan should be comprehensive and periodically tested to facilitate an adequate recovery process. The contingency plan should include consideration of physical facilities, personnel, operating instructions, supplies and forms, application programs, including documentation, and system software and data. It should start with an inventory of equipment and programs and be regularly updated to reflect changes in computer equipment and programs.

We reviewed the department's contingency/disaster plan which was completed on June 1, 1990. Our review indicated the department would benefit by updating the plan. We reviewed the plan to determine if it contained the minimum contingency guidelines as stated in section 1-0240.00, Montana Operations Manual (MOM). We noted the department's plan could be improved by:

1. Providing a detailed definition of the responsibility for each organizational unit.

2. Identifying recovery staff in the service unit and in user divisions.
3. Providing for training of staff in the service unit and the end users.
4. Identifying potential disasters or their impact.
5. Including impact of needs for data security, communication services, power sources, etc.
6. Including a checklist of supplies and other requirements.
7. Having an established procedure for updating the plan.

The department uses computers in every facet of its operations. Loss of computer use would significantly impact department operations. The department has discussed many of the options and solutions for recovering from a disaster or other disruption of normal activities. These discussions have not been documented. A written, detailed plan outlining recovery procedures should exist and be tested to ensure feasibility of the plan. Maintaining an adequate contingency plan will ensure continued data processing operations and the department will be in compliance with section 1-0240.00, MOM.

Recommendation #A11-11

We recommend the department:

- A. **Comply with the contingency guidelines for agencies specified in section 1-0240.00, MOM.**
- B. **Periodically test the contingency plan.**

Response #A11-11

- A. **Concur.** It should be noted that The State of Montana Data Processing Managers Group (DPMG) is currently establishing procedures for contingency planning for state agencies. We will comply with all procedures by DPMG.
- B. **Concur.**

Department of Social and Rehabilitation Services

A12-1 Medicaid Waiver Controls

To meet federal medicaid requirements, the Department of Social and Rehabilitation Services (department) requested that we extend our audit tests over the Medicaid Waiver programs (CFDA #13.714) during our prior audit. Medicaid Waiver programs allow qualified individuals to receive Medicaid benefits while living in a private home, rather than in a nursing home, if it is cost effective. The department did not implement the prior audit recommendation to communicate control procedures for the authorization of elderly and handicapped waiver expenditures to contractors and ensure contractors implement the control procedures effectively.

We also observed in the prior audit that certain Medicaid Waiver claims paid were not authorized by the case management personnel at the time of payment. We also noted an unauthorized claim paid by the data processing contractor because the case management contractor had not properly disallowed the payment. Data processing input screens did not prompt the data entry person to check for case management team authorization.

Department management concurred with the recommendation but did not implement it. In a January 1991 letter report of the implementation status on the prior audit recommendations, the department indicated all case management teams will be audited by the department in the fiscal years 1990-91 or 1991-92 and the audits will include close scrutiny of the authorization procedures. The report indicated case management teams have been instructed in the proper method of denying unallowable claims. It also indicated prompts have been placed on the computer system to encourage data entry personnel to check for proper authorization.

As of January 2, 1992, none of the case management teams have been audited. Department personnel indicated audit staff have been used on other work and have not performed audits of the case management teams. In addition, we found no evidence to indicate case management teams were instructed in the proper method for denying Medicaid claims. The department has instructed the financial intermediary, which processes Medicaid

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claims, to place authorization edits on the computer system to prompt data entry personnel to check for a proper authorization.

We present this information for disclosure purposes only.

A12-2 Contingent Revolving Fund

In each of the last four audits of the department and during the current audit (a ten-year period), we observed significant internal control weaknesses which could allow persons working at department offices to write unauthorized contingent revolving fund (CRF) checks. The department maintains blank checks at each of the 56 counties and 10 district offices. The department employees write approximately \$10 million in checks annually through this fund. The department uses the CRF predominantly for general assistance and Aid to Families with Dependent Children (AFDC) program (CFDA #13.780) payments.

During the current audit we noted five concerns with the CRF control system.

At seven of the nine counties we visited, we noted employees have access to the blank checks and are authorized signers for the CRF. Individuals with these duties have the ability to make unauthorized payments. State policy requires that different personnel should have responsibility for authorizing transactions, and maintaining security of assets. County personnel cited the small number of staff in their offices as a reason for not segregating duties. Since most offices have at least two or three staff, we believe a more effective segregation of duties is possible. The department should separate the responsibility for the security of blank checks from the individual who has authority to sign the checks.

The department has not established a maximum dollar limit for which checks can be written. Currently, an authorized signer, at any of the 66 locations where blank checks are maintained, could issue a check for an unlimited amount, because the checks do not specify a limit, such as "valid for amounts less than \$1,000." A majority of the checks we observed during the audit were issued in amounts less than \$500. The department could establish a reasonable limit based on a review of the checks issued during the past year. A maximum dollar limit would help reduce the risk of large losses due to theft or checks altered by recipients. Depart-

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ment personnel indicated it is the department's policy that all checks over \$600 must be approved by the fiscal bureau in the Helena office. Without a limit printed on the check the department's policy does not significantly reduce the risk of improperly issued checks or check altering by the recipient.

We observed instances where uncashed checks remained on the outstanding check list and were not cancelled by the department after 180 days. The department has a written policy to cancel payment on all contingent revolving fund checks issued which are not cashed within 90 days. Based on our observation, the department does not consistently follow this policy. Department personnel indicated the policy is out of date and it should be revised.

The department prepares a monthly list of CRF checks processed by each county. By using the processed check list, field office personnel can compare the list of checks processed with their records to ensure that only properly authorized checks were processed. In our audit, we found that only three of the nine counties we visited, which receive the list, use it as intended. In two other counties, personnel indicated the list is used to ensure only properly authorized checks were processed but they do not document their review. Personnel in the four remaining counties indicated either the list is not received or that they do not use the list as intended because of insufficient available time. This concern was addressed in the previous audit. Department personnel in Helena said monthly processed lists are sent to all counties. The officials indicated counties have been instructed to perform the comparison.

The internal control weaknesses we observed above could be mitigated when the department performs its monthly bank reconciliation. However, the account has not been completely reconciled for two years. State policy requires a monthly reconciliation of all contingent revolving accounts. Department policy requires that completed reconciliations be reviewed and approved by a supervisor.

We noted unexplained differences on each of the department's 24 monthly reconciliations prepared during our audit period. The differences, which at times exceeded \$17,000, were identified on the reconciliation form as "reconciling items." In one instance, 12 checks amounting to nearly \$2,100 were

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improperly written off the books. Only two of the twenty-four reconciliation forms completed during the audit period were signed as approved by the supervisor. If the department does not periodically reconcile cash per its records to cash on the bank statement, the department increases its risk that significant intentional or unintentional errors will occur.

Department management indicated a high level of employee turnover caused inexperienced individuals to reconcile the account. If a department supervisor would have reviewed the reconciliations as required by policy, the errors should have been detected. Because the account is held outside the state treasury and because the account is not subject to the same controls as warrants issued by the State Auditor's Office, the cash in the account is subject to high inherent risk. Due to the high risk and because \$10 million in checks are paid out of the account annually, the department should maintain effective controls to secure the account.

Recommendation #A12-2

We recommend the department establish control over its contingent revolving fund account.

Response #A12-2

Concur. In April, 1991 agency personnel identified potential problems with the past procedures of the CRF monthly reconciliations. New reconciliation forms, procedures and policies were created. Training classes were presented for the section supervisor, lead worker and employee performing the duties of the reconciliations and review. At the same time, agency personnel went back and reworked all prior CRF monthly reconciliations to ensure accuracy and adherence and compliance to policy. The \$2,100 that was improperly written off was subsequently corrected; strict supervision, review and tighter controls have been placed on the CRF, SBAS and bank reconciliation. Also, with the inception of TEAMS the number

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of checks written has been significantly reduced and will be further reduced in FY 93 when the new GA enhancements to TEAMS are implemented.

A12-3 Fund Balances

At fiscal year-end 1990-91, the department maintained a federal special revenue account with a negative fund balance of \$777,083. State policy requires the fund balance in this account be zero at fiscal year-end. The department uses this account for recording activity related to federal public welfare grants. The majority of the moneys are provided by the U.S. Department of Health and Human Services under the Medicaid program (CFDA #13.714).

State policy requires that federal funds expended always equal federal revenue in this account. Thus, if we begin with a zero fund balance in a federal special revenue account, and if the additions to fund balance (revenue) equal reductions in fund balance (expenditures), then fund balance at the end of a year must be zero.

Since fiscal year-end 1984-85, this account has not had a zero fund balance as required by state accounting policy. The fund balance ranged between a negative fund balance of \$7,454,206 and a positive fund balance of \$3,836,460. Department personnel think the fluctuations have been the result of errors in each of those years. During our audit, we noted a transaction in fiscal year 1989-90 adjusting prior year federal expenditures downward by \$7.3 million. This adjustment also caused the fund balance to increase by the same amount because the department did not record a corresponding decrease to prior year revenue. Department procedures, as described to us by department personnel, indicate there should have also been an adjustment to prior year revenue. Department personnel were unable to produce documentation showing why the adjustment to the prior year revenue was not recorded.

Department personnel have been unable to reconcile revenue and expenditures in this federal account over the past six years. As a result, we are unable to determine whether the account balance is overstated by \$7.3 million or whether it is understated. This

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concern has been addressed in two prior audit reports. The department concurred with the recommendations in each report. In February 1988, the department stated the analysis would be completed and corrections made by fiscal year-end 1988. In April 1990, the department again stated the analysis would be a priority to be completed by July 31, 1990.

The department implemented procedures on July 1, 1991, which it believes will identify the nonfederal portion of the fund balance in this account. On July 1, 1991, the department closed its out-of-balance federal account. It established a new account for recording of federal revenue and expenditures. The results of this procedure to correct the account balance will probably not be known until near the end of fiscal year 1991-92.

Recommendation #A12-3

We recommend the department analyze and correct fund balances in the federal special revenue account.

Response #A12-3

Concur. As stated in the report, agency personnel has implemented procedures to correct fund balance by the end of fiscal year 1991-92.

A12-4 Accruals and Deferrals

During fiscal years 1989-90 and 1990-91, the department improperly deferred or accrued five revenue and expenditure transactions amounting to \$327,000. State law and state accounting policy require that at fiscal year-end each state agency ensure that all revenues are properly accrued or deferred. The policy also requires that agencies record expenditure accruals for all valid obligations.

The errors we noted occurred in both the General Fund and the Special Revenue Fund primarily for the Developmental Disability program (CFDA #13.631). Department personnel indicated the errors were caused by the large number of transactions

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processed during the fiscal year-end period. Department accounting personnel should establish fiscal year-end procedures which ensure all accrual and deferral transactions are properly recorded.

Recommendation #A12-4

We recommend the department establish procedures to ensure revenue and expenditures are properly deferred or accrued in accordance with state law.

Response #A12-4

Concur. It has been explained to personnel who prepare revenue accruals and deferrals at year-end that revenue does not match expenditures in all accounting entities. These will be evaluated on an individual basis.

A12-5 Statewide Indirect Costs

For the past three audits, the department has not deposited all Statewide Cost Allocation Plan (SWCAP) cost reimbursements in the General Fund as required by state policy. State accounting policy (MM 2-88-2) states that ". . .all agencies must determine the amount of the recoveries that are due to the costs included in Section 1 of the Statewide Cost Allocation Plan and move that amount into the General Fund. . ." The purpose of the state policy is to ensure the General Fund is reimbursed for indirect costs which are allocable to federal programs.

In the prior two audit reports, we reported the department had not transferred a total of \$153,953 in SWCAP cost reimbursements to the General Fund. We recommended the department transfer this amount to the General Fund. The department did not concur with the recommendation and did not transfer \$153,953 to the General Fund. In the current audit, we noted the department should have transferred an additional \$15,214 in SWCAP cost recoveries to the General Fund. A department official said the department did not transfer SWCAP reimbursements to the General Fund for two grants because the depart-

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ment had expended up to the federal limit for administration for these grants (CFDA #13.667 and #10.568). In such cases, additional administrative costs charged to these grants would be unallowable and the costs would be paid by the General Fund. In addition, department management said the department believes it has in the past complied with the state policy (MM 2-88-2).

By spending the SWCAP reimbursement out of the Special Revenue Fund to offset General Fund expenditures the department is understating the actual General Fund support for federal programs. At the end of fiscal years 1989-90 and 1990-91, and for the years covered by the prior two audits, the department had sufficient appropriation authority to pay its program expenditures from the General Fund. The department could have transferred SWCAP reimbursements to the General Fund as required by state policy and properly acknowledged the General Fund support of its programs.

We made a similar recommendation in the prior two audits. The department did not fully implement the recommendation, but did increase the number of grants for which SWCAP reimbursements were made to the General Fund.

Recommendation #A12-5

We recommend the department transfer \$169,167 in statewide cost allocation plan reimbursements to the General Fund as required by state policy.

Response #A12-5

Do not concur. The department believes, as it has in the past, that it has complied with the state policy and statute (Section 17-3-111, MCA)--"the agency shall endeavor, to the fullest extent possible, to recover indirect costs from federal assistance programs."

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When the Legislature appropriates federal funds to the department, including block grant funds and capped federal grants, to be used for direct administrative costs and client benefits, those sources of funds are not available for indirect cost recovery. Therefore, the department has transferred recoverable SWCAP costs to the General Fund.

The Legislature appropriates funds from the Special Revenue Fund for SWCAP recovery transfers, but provides no appropriation to any State agency from the General Fund to transfer to the General Fund for unrecoverable SWCAP costs.

A12-6 Data Processing Security

The Electronic Data Processing (EDP) systems used by SRS contain information for services administered through the department. Examples of information on the system include recipient's name, income, medical and other services provided, vendors such as names of doctors, and benefit payment amounts. This type of information is sensitive because some of it is confidential and should be adequately safeguarded. Our audit identified a weakness in controls which could allow unauthorized persons access to sensitive information. Our concern is discussed in the following report section.

Access Controls

The department maintains essential data on recipients who receive benefit payments on its EDP system. Such payments are made from the state General Fund and the federal Special Revenue Fund. Federal benefit payments which exceed \$250 million each year are primarily provided by the U.S. Department of Health and Human Services, Medicaid program (CFDA #13.714). Computer access controls help prevent deliberate or accidental unauthorized use or manipulation of the data files. The department uses security identification codes (IDs) to restrict access to sensitive computer files. Security IDs should be suspended when an employee terminates to maintain an acceptable level of security over the EDP system.

Of 38 terminated employees we tested, 35 employee security IDs were not suspended upon termination. Sixteen of the employees terminated their employment from 10 to 29 months prior to our

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test but their IDs were still active during our test. State EDP policy requires the department's management to suspend logon IDs of terminated employees. By not suspending the logon IDs when an employee terminates employment, the department increases its risk that unauthorized persons will access sensitive information and potentially allow incorrect benefit payments under the various programs administered by the department. The terminated employees had access to various system programs and data files including files which generate warrants for the Medicaid and the Aid to Families with Dependent Children (CFDA #13.780) programs. We noted ten terminated employees accessed department data files after the date of their termination. Two of the terminated employees kept their logon IDs because the individuals were employed by a contractor which installed a new computer system for the department. Department management could not explain why eight of the ten terminated employees had accessed the computer system. We noted a similar concern in the previous audit of the department.

Recommendation #A12-6

We recommend the department suspend computer system logon identification codes when employees terminate employment.

Response #A12-6

Concur. The department is currently evaluating plans to implement periodic personnel reviews with agency divisions to ensure the log-on IDs are rescinded, as applicable. The Personnel Division is also providing the agency security officer with termination/transfer listings to ensure terminated or transferred personnel security profiles are canceled or modified.

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Federal Program Compliance and Management

The federal Single Audit Act of 1984 requires auditors to test compliance with federal laws and regulations which apply to the operation and management of major federal assistance programs. Major federal assistance programs for the state of Montana are defined in federal law as any program for which federal expenditures exceed \$3 million in a fiscal year. At the department, we specifically tested compliance and expenditure allowability for the Medicaid program, the Food Distribution program, the Food Stamps program, the Low Income Home Energy Assistance program (LIHEAP), the Social Services Block Grant, and the Aid to Families with Dependent Children (AFDC) program.

To comply with federal audit requirements our report discloses federal compliance issues identified during the audit. These federal compliance issues are discussed below in issues A12-7 through A12-13.

A12-7 "Less Than Effective Drugs"

The department paid Medicaid claims for prescription drugs which Food and Drug Administration (FDA) considers "less than effective." Federal regulations prohibit the department from spending federal Medicaid funds (CFDA #13.714) for drugs which are not effective in treating patients. We tested all Medicaid claims for prescription drugs processed by the department from January 1, 1991 through June 30, 1991. We noted the department improperly paid \$9,556 in claims for prescription drugs which are considered less than effective by the FDA. Department personnel indicated the contractor that processes Montana's Medicaid claims did not use available information that should have identified and allowed the contractor to purge these drugs from claims paid by the department. The contractor is responsible under its contract with the department to ensure only allowable claims are paid by Medicaid. The department is also responsible for monitoring the types of goods and services approved for payment, yet department personnel were not aware that the department paid for less than effective drugs before we brought it to their attention.

We question the allowability of Medicaid claims for less than effective drugs amounting to \$9,556. If the department finds

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that the improper drug payments were caused by contractor error, it should seek reimbursement from the contractor.

Recommendation #A12-7

We recommend the department pay Medicaid claims only for drugs which are considered effective by the Food and Drug Administration.

Response #A12-7

Concur. The department agrees that drugs that are considered less than effective by the Food and Drug Administration, or identical, related or similar by HCFA should not be paid. The department has taken corrective action to ensure that the most current list of less-than-effective drugs is implemented to control payments of the claims.

First Data Bank maintains the DESI file and created a second file indicator (DESI II) to allow states the option of implementing the new list or maintaining the old list and to maintain the integrity of the existing file. This was done because of concerns of the accuracy of HCFA update. The creation of this DESI II indicator contributed to the fact that this update was not completed in Montana's claims processing system. If documentation indicates contractor error, the department will seek reimbursement from the contractor.

A12-8 Subrecipient Audits

The department does not have procedures for obtaining and monitoring audit reports of certain private nonprofit corporations performed under the provisions of Office of Management and Budget (OMB) Circular A-133. This circular establishes the federal audit requirement for nonprofit organizations that receive more than \$25,000 in federal funds. The nonprofit corporations receive Vocational Rehabilitation (Voc Rehab) funds (CFDA #84.126) and Developmental Disabilities (DD) program funds (CFDA #13.631). The department, as the recipient of federal assistance, is required by federal regulations to have a

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system of monitoring subrecipients such as nonprofit corporations.

One method the department is required to use to monitor private nonprofit corporations is to review their audit reports. These audit reports are already required by federal regulation for fiscal years that begin after January 1, 1990. By inserting a clause in the Voc Rehab and DD contracts requiring that copies of audits of the corporations be submitted to SRS, the department can ensure these reports would be available for use as a monitoring tool.

Department personnel indicated some of the large DD provider corporations are currently audited by the department's Audit and Compliance Bureau. The personnel indicated SRS did not have sufficient audit staff to audit all DD provider corporations every two years as required by the federal regulation. Consequently, some DD providers may be required to obtain the audit from a private CPA firm and provide the report to SRS. Personnel indicated the department has not required Voc Rehab nonprofit corporations to obtain an audit; however, SRS is currently reviewing its policy regarding the Voc Rehab audits.

Recommendation #A12-8

We recommend the department obtain and review audit reports of nonprofit organizations as required by OMB Circular A-133.

Response #A12-8

Concur. Department personnel are currently reviewing copies of the 1991 audits. Language is being inserted in new contracts requiring the nonprofit organizations comply with OMB Circular A-133.

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A12-9 Food Distribution Reviews

The department has not performed annual reviews of all Emergency Food Assistance program (EFAP) organizations as required by Federal Food Commodities program (CFDA #10.568) regulations. Federal regulations require that the department annually review operating procedures such as eligibility determinations, food ordering, storage and warehousing, reporting and recordkeeping at each EFAP organization. When deficiencies are observed the federal regulations require that the department monitor the implementation of corrective action.

The department maintains fifteen contracts with organizations operating emergency feeding facilities. We noted four of the fifteen EFAP organizations were not reviewed by the department in fiscal year 1989-90 or 1990-91 as required by federal regulation. One other organization did not receive an annual review in fiscal year 1989-90. In addition, for two of ten EFAP corrective action plans, we found no evidence that the department monitored corrective actions to ensure compliance with the federal regulation.

Department personnel indicated the noncompliance with federal regulation noted above is caused by a shortage of available staff.

Recommendation #A12-9

We recommend the department:

- A. Ensure Emergency Food Assistance programs are reviewed annually in accordance with federal regulations.**
- B. Monitor all emergency food assistance program corrective action plans.**

Response #A12-9

Concur. Department personnel will develop a control procedure for ensuring reviews and corrective action plans are completed as required by federal regulations.

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A12-10 Food Distribution Records Retention

Department personnel were unable to locate records which demonstrate two Indian reservation food commodity programs (CFDA #10.567) were reviewed by the department in fiscal year 1989-90. The annual review of the Food Distribution on Indian Reservations (FDIR) is required by federal regulation. The regulation also requires that records of the review process be retained for three years after the end of the fiscal year to which the records pertain.

Department personnel were able to provide us with evidence that a federal agency had reviewed the FDIR reports; however, the personnel were unable to locate the workpapers or the reports for our inspection. The department personnel were unable to explain what happened to the reports.

Recommendation #A12-10

We recommend the department implement a system to ensure FDIR workpapers and reports are retained for three years in accordance with federal regulation.

Response #A12-10

Concur. The control procedure addressed in the agency response to recommendation #A12-9 will include a mechanism to ensure compliance with regulatory requirement for record retention.

A12-11 Cost Allocation Plan Support Documenta- tion

The department did not have documentation to support segments of its cost allocation plan. The department uses the cost allocation plan to claim reimbursement for administering federal programs. Federal regulations require that state agencies maintain documentation to support all federal assistance expenditures for at least three years.

Department personnel indicated they had lost support for the calculation of the percentage of time used by welfare investigators working on the Aid to Families with Dependent Children

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(AFDC) (CFDA #13.780) and the Food Stamp (FS) (CFDA #10.561) programs. The department determines the allocation percentage by randomly selecting two working days per month. On the days selected, the welfare investigators complete a detailed time report describing the amount of time spent working on the programs. This information is assimilated and used in the department's cost allocation process.

Department personnel indicated the July through November 1989 time logs for the welfare investigators were lost and they were not available for audit. The personnel recalculated the information for the AFDC program and the FS program. However, the recalculated percentages did not agree with the percentages used in the cost allocation plan. Department personnel indicated the differences between the original percentages and the recalculated percentages were caused by the timing of the calculation. The personnel indicated additional time reports may have been received subsequent to the original calculation. Based on our review, we noted no significant difference between the original calculation and the recalculation. However, as required by federal regulation, the department should maintain a system to keep all cost allocation plan support documentation for three years.

Recommendation #A12-11

We recommend the department maintain all cost allocation plan support documentation for three years as required by federal regulations.

Response #A12-11

Concur. The Department no longer has the Front-End Investigator Program and all cost allocation documentation is maintained.

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A12-12 Federal Grant Expenditures

In fiscal year 1989-90, the department improperly charged the Medicaid program (CFDA #13.714) and the Low-Income Home Energy Assistance program (LIHEAP) (CFDA #13.789) for services which should have been charged to the Vocational Rehabilitation program (CFDA #84.126). Federal regulations require that each federal assistance program be charged only for its share of allowable expenditures. The department overcharged LIHEAP by \$339 and Medicaid by \$2,002 and we question the allowability of these costs. The department also undercharged the Vocational Rehabilitation program by \$2,341. Department personnel indicated the improper charges were caused by a keypunch error on one accounting document. The personnel said the error would be corrected.

Recommendation #A12-12

We recommend the department correct the overcharges in the Medicaid and Low-Income Home Energy Assistance programs, and the undercharge in the Vocational Rehabilitation program.

Response #A12-12

Concur. The error was corrected. The agency has internal audit procedures established to catch these keypunch errors.

A12-13 Food Stamp Over- issuance Recoveries

We observed two instances where the department did not properly follow up and attempt to collect Food Stamp program (CFDA #10.561) overissuances. The food stamp overissuances were detected by the department's quality control system and reported to the county officials where the errors occurred. Department policy requires county personnel to prepare an overissuance claim and send it to the department's Fraud and Recovery Section. We found no evidence in the participant's files indicating the overissuances were ever referred to the Fraud and Recovery Section as required by policy. The two overissuances totalled to \$992 and we question the allowability of these amounts.

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Department personnel indicated notifying the Fraud and Recovery section of overissuances is sometimes not a high priority. They indicated notifying the Fraud and Recovery section of obvious fraud is a higher priority than client errors of lesser significance.

Recommendation #A12-13

We recommend the department ensure county employees promptly report all food stamp overissuances to the department's Fraud and Recovery Section.

Response #A12-13

Concur. Overissuances are now being reported to the Fraud and Recovery Section promptly through TEAMS. Teams automatically calculates overpayment amounts and directs the ET through the necessary overpayment screens. TEAMS then reports all overpayment information to the Fraud and Recovery Section on a weekly basis.

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Internal Controls

The Department of Family Services (department) is responsible for establishing and maintaining adequate systems of internal control. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded; and reliable data is obtained, maintained, and disclosed in management reports. Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. However, a good system of internal control reduces the risk of such errors or irregularities.

During our audit, we noted weaknesses in the department's control systems over transaction support; completeness of accounting records; property, plant and equipment; segregation of duties; and management controls (see Issue A13-16). The control weaknesses noted also affect controls over federal programs the department administers. The department receives approximately 90 percent of its federal funding from the U.S. Department of Health and Human Services. The majority of this funding relates to the aging and foster care programs. The remainder of federal funding received by the department is from the U.S. Department of Agriculture, the U.S. Department of Justice, and the U.S. Department of Education. The significant weaknesses we noted and suggestions for strengthening controls are discussed in the following sections.

A13-1 Transaction Support

In our prior audit we recommended, and the department concurred, that the department establish procedures to ensure adequate written support documentation exists for all accounting transactions processed. The department stated it had implemented procedures to ensure that support documentation would be attached to all transactions. During the current audit, we noted several instances where Statewide Budgeting and Accounting System (SBAS) documents lacked sufficient supporting documentation to adequately explain the basis for transactions recorded on SBAS. These transactions, which totalled approximately \$6 million, are described as follows.

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- The department could not provide subsidized adoption files to support payments made on behalf of two individuals. Since these payments were reimbursed with federal funds, we question \$9,668 of costs incurred to the Foster Care Title IV-E grant (CFDA #13.658) for fiscal years 1989-90 and 1990-91.
- The department could not provide support to demonstrate meal or mileage charges on seven employee travel vouchers tested, as discussed in issue A13-9, were within applicable state travel laws.
- The department did not have support for six journal vouchers totalling \$6,042,032. These journal vouchers were correcting revenue accruals and adjusting the funding source of expenditures.
- The department could not provide adequate support for reimbursements made to replenish the imprest cash account.

Department officials could not locate the missing files and could not explain many of the accounting transactions which were not supported. In order to explain other accounting transactions, department personnel spent a substantial amount of time recreating support documentation. If the personnel who prepared these transactions terminated employment at the department, new personnel would not be able to explain the accounting transactions because the documents do not have support attached.

Every SBAS document should be properly and adequately supported in order to demonstrate the reasonableness and accuracy of the transaction. Without sufficient support documentation, the possibility exists that invalid or incorrect transactions are reported on SBAS.

Recommendation #A13-1

We recommend the department establish procedures to ensure adequate written support documentation exists for all accounting transactions processed.

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Response #A13-1

The department concurs and is implementing: A written policy will be developed and implemented by June 30, 1992, to produce proper written documentation for accounting transactions to ensure the reasonableness and accuracy of each transaction.

A13-2 Completeness of Accounting Records

The department is responsible for ensuring the completeness and accuracy of its accounting records. During fiscal year 1990-91, the department recorded approximately 76,000 transactions on SBAS. The Department of Administration, Accounting Bureau, provides agencies with a daily report of all transactions recorded on the accounting records. State accounting policy states, "... the SBAS daily transaction report should be reconciled with the agency document numbering log. This review should be performed daily and should be documented by a signature and date on the document log." We noted in both the prior audit and the current audit the department does not use the daily report or follow the state policy. As a result, the department does not have a system to ensure all its transactions are input, processed, and recorded correctly on SBAS. In addition, it does not ensure all transactions recorded on SBAS represent financial activity of the department. Since the department allows the Departments of Social and Rehabilitation Services, Commerce, State Lands, and Administration to input documents on its accounting records, the importance of this review is increased. If the department complied with this policy, it would help ensure all transactions were input, processed correctly, and represent financial activity of the department.

Department officials concurred with our prior audit recommendation but did not implement it. According to department personnel, the central office compares the daily transaction report to the document log when time permits. For documents listed on the daily transaction report but not on the document log, department personnel add the document to the log. However, the procedures used by the department only identify documents not listed on the log and do not ensure information contained on the document is authorized, accurate, and complete. In addition, Mountain View School (MVS), Pine Hills School (PHS), and the office on aging were not performing the

comparison or review because the central office personnel did not send the daily transaction reports to the personnel responsible for accounting for those activities. Since the department is responsible for all information recorded on its accounting records, it should perform a review to ensure information recorded is authorized, accurate, and complete.

Recommendation #A13-2

We recommend the department review the daily transaction listing to ensure information recorded on SBAS is authorized, accurate, and complete.

Response #A13-2

The department concurs and has implemented: Currently, daily transaction reports are mailed to both Pine Hills School and Mountain View School for their review and reconciliation. The Central Office has implemented the process of reviewing and reconciling on a daily basis the daily transaction report and the document log. Discrepancies are evaluated and reconciled.

A13-3 Property, Plant and Equipment

The state maintains a Property Accountability Management System (PAMS). This system is used by agencies to manage and account for fixed assets. According to state policy, the department should record equipment with a unit cost of \$1,000 or more on PAMS. In addition, state policy requires the department assign each equipment item a property number and a corresponding property tag. Federal regulations require the department to comply with the established state standards when recording equipment purchased with federal funds.

As noted in our previous audit report, the department does not follow state policy nor does it have a system to account for or safeguard its equipment. The department concurred with our recommendation to establish procedures to ensure all equipment is tagged for identification and properly recorded on SBAS. However, during the current audit we noted the department did

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not implement the recommendation. We noted the following concerns related to management of equipment by the department.

- The department recorded \$142,000 of equipment transferred from the Department of Social and Rehabilitation Services (SRS) on PAMS as one property number. The department recorded \$82,162 of equipment purchased for fiscal year 1987-88 on PAMS under one property number and \$86,515 of equipment purchased for fiscal year 1988-89 on PAMS under another property number.
- The department's central office did not record on PAMS approximately \$4,082 and \$83,719 of equipment purchases during fiscal years 1989-90 and 1990-91, respectively. The department has not recorded deletions for equipment disposed of during the past four fiscal years.
- The department's central office has not placed property tags on equipment transferred from SRS or purchased during fiscal years 1987-88 through 1990-91.

The department receives a monthly SBAS listing from the Department of Administration, Accounting Bureau, of items coded as an equipment expenditure on SBAS. The department must analyze and decide which items shown on this listing should be recorded on PAMS. The department should process a transaction to record the equipment on PAMS. Department personnel noted they are in the process of gathering equipment listings from regional offices and have plans to properly record items on PAMS and place tags on the items in accordance with state policy. However, this process was not completed as of January 1992. In addition, PHS personnel noted that they attempted to input approximately \$8,391 of equipment on PAMS over the past three fiscal years. However, PHS does not receive a copy of the PAMS listing from the central office and; therefore, was not aware the equipment was never processed on PAMS. The department should establish procedures to ensure equipment greater than \$1,000 belonging to the state is tagged for identification and properly recorded on the state's accounting records.

Recommendation #A13-3

We recommend the department establish control procedures to ensure appropriate department equipment is tagged for identification and properly recorded on the state's property accounting records.

Response #A13-3

The department concurs and is implementing: The department has assigned a position as property manager and will verify that equipment is properly classified on PAMS. A target date of September 30, 1992, has been established for completion of the project.

A13-4 Segregation of Duties

During our review, we noted inadequate segregation of duties at PHS relating to payroll processing, resident account collections, and canteen inventory. The following instances were noted:

- The school processed approximately \$85,190 and \$66,903 in cash receipts during fiscal years 1989-90 and 1990-91, respectively, on behalf of its residents. One employee is responsible for opening the mail, receipting the money, initially compiling the deposit, and reconciling the bank statement. This employee also began recording the resident account activity in fiscal year 1991-92. This combination of duties places the employee in a position to perpetrate and conceal errors or irregularities in the normal course of the employee's duties. We noted similar weaknesses in internal controls at MVS during the prior audit. Due to those weaknesses in internal control, we found at least \$8,300 was misappropriated from MVS.
- The school's budgeted personal service expenditures were approximately \$3 million each year in fiscal years 1989-90 and 1990-91. One employee is responsible for preparing payroll changes, preparing the prepayroll, and receiving the payroll warrants prior to distribution. Even though this employee does not approve the payroll changes and prepayroll, the employee receives these documents back after they are approved and prior to processing. As a result, the potential exists for a preparer to alter the prepayroll after

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approval and to control warrants containing altered or fictitious payroll information.

- The school purchased \$19,938 and \$15,597 in fiscal years 1989-90 and 1990-91, respectively, for goods for resale at the canteen. One employee is responsible for purchasing the merchandise, recording inventory receipts and sales on the inventory system, dispensing the inventory to residents, taking the physical count of the inventory, and making adjustments to the inventory records. This combination of duties places the employee in a position to perpetrate and conceal errors or irregularities in the normal course of the employee's duties.

State policy requires that no one person perform incompatible functions. The policy further recommends the responsibilities of recordkeeping, authorization, operations and custodianship be separated. According to department personnel, there is limited staff available to adequately segregate duties. However, we believe duties could be adequately segregated by allocating duties differently between existing staff.

Recommendation #A13-4

We recommend the department adequately segregate duties of personnel responsible for payroll processing, resident account activity, and canteen inventory.

Response #A13-4

The department concurs and is implementing: The department is in the process of reviewing the responsibilities for each of the positions in question. An evaluation of responsibilities and a reassignment of duties to ensure segregation of duties will be completed by June 30, 1992, by the institutions. An on-site review will be completed by Central Office by September 30, 1992, to verify that the proper procedures are followed.

State Compliance

We reviewed selected state laws and regulations pertaining to the department. Federal regulations require the department expend federal funds in compliance with state laws. If the department does not comply with state laws, it could affect the allowability of expenditures for federal reimbursement. The accounting records, annual and holiday leave calculation, retirement system, administrative cost recovery, and travel sections discussed below also affect the department's federal funds. The following sections discuss state compliance issues we noted during the audit.

A13-5 Accounting Records

Financial information of the department is used by department officials, budget analysts, and the legislature to manage and establish funding levels for the department. Section 17-1-102(5), MCA, provides "all state agencies . . . shall input all necessary transactions to the accounting system . . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles (GAAP)." The Department of Administration, Accounting Bureau, establishes state accounting policies for agencies to follow to ensure information recorded on the state's accounting records (SBAS) complies with GAAP.

During the previous audit, we noted instances where the department did not record financial activity on SBAS in accordance with state law and state accounting policies. The department concurred with our recommendation and addressed some of the specific instances noted. However, it did not address the overall concern of establishing procedures to ensure proper recording of transactions on the state's accounting records. During this audit, we noted the following instances where the department did not comply with state law and accounting policies.

- At fiscal year-end 1990-91, the department received approximately \$1.8 million of federal funds and recorded the funds as deferred revenue. The expenditures, which generated the federal reimbursement, were incurred prior to fiscal year-end. As a result, these moneys were earned

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and the department should have recognized them as revenue. Revenue was understated and deferred revenue was overstated at fiscal year-end 1990-91 by approximately \$1.8 million.

- Prior to fiscal year-end 1989-90 and 1990-91, the department did not accrue expenditures for billings it received from providers of aging services. The department should have accrued these expenditures since the expenditures were incurred prior to fiscal year-end.
- The department did not accrue revenue for Chapter 1 moneys earned by fiscal year-end 1990-91. As a result, accounts receivable and revenue were understated by \$5,993 in fiscal year 1990-91.
- At fiscal year-end 1989-90, the department did not comply with fiscal year-end instructions on use of special cutoff control accounts. As a result of the miscoding, the cutoff accounts were misstated by approximately \$3.6 million.
- During fiscal year 1989-90, the department charged \$8,537 of state expenditures to a federally funded account rather than a state funded account.
- The department recorded \$9,381 of services for July 1989 as fiscal year 1988-89 activity rather than fiscal year 1989-90 activity. During fiscal year 1989-90, the department charged \$4,712 of fiscal year 1987-88 expenditures to fiscal year 1988-89. The department should charge expenditures to the fiscal year that benefits from the services.
- The department received a federal grant of approximately \$6,000 and \$5,000 in fiscal years 1989-90 and 1990-91, respectively. These funds are recorded in a federal accounting entity upon receipt; however, the department abated these funds to a state accounting entity immediately after receipt. The department should record federal moneys it receives in a federal accounting entity.

Without all financial activity properly recorded on SBAS, the quality, consistency, and comparability of the resulting financial information is affected. Many of these errors resulted from employees' unfamiliarity with state accounting policies, failure to follow state policies, inadequate review of accounting documents by authorized individuals, lack of communication between employees within the department and human error. The depart-

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ment should establish procedures to ensure proper recording of transactions on the state's accounting records. Procedures should include, but are not limited to:

1. Recognizing revenue when earned.
2. Recording expenditure accruals when expenditures are incurred but not paid by fiscal year-end.
3. Coding expenditures to the proper category and fiscal year.
4. Initially recording expenditures to the correct funding source.
5. Communicating policies and procedures to employees responsible for completing the work.
6. Providing training to its personnel.
7. Adequately supervising and reviewing the work of department personnel to ensure errors are minimized and detected in a timely manner.

Recommendation #A13-5

We recommend the department establish procedures to record its financial activity on SBAS in accordance with state accounting laws and policies.

Response #A13-5

The department concurs: The department is reviewing the procedure used for year end cut off to ensure that general accepted accounting principles are applied consistently. A position is being developed and classified for the fiscal unit to assist with the review in the areas of coding of expenditures, review accruals and proper classification of expenditures. In addition this position will assist in the communication area. An evaluation of training needs will be completed by June 30, 1992.

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A13-6 Annual and Holiday Leave Calculation

In 1987 the Montana Supreme Court held that teachers at MVS are state employees and as such are entitled to leave benefits provided other state employees. The Department of Administration promulgated rules under section 2-18-604, MCA, for employee leave benefits provided state employees. The Administrative Rules of Montana (ARMs) section 2.21.221(3), states "Leave credits may not be advanced nor may leave be taken retroactively." In addition, state policy requires the department to record the cost of employee's leave when the employee uses the annual leave.

During the 1990-91 school year, MVS and PHS employed 11 and 15 teachers, respectively. We noted the department increases the teachers' gross pay by including a value equivalent to the number of days of annual leave and holidays a teacher is allowed in calculating the hourly wage for each teacher. The method used by the department does not comply with state policy because the teachers are paid for annual leave or holidays prior to earning or taking this time.

Department officials noted that the teacher's union agreements require it to calculate the hourly wage rate in the manner used by the department. However, the department cannot modify state law through collective bargaining. The department should work with the Department of Administration to ensure that annual and holiday leave for teachers is credited, paid and recorded in accordance with state law and policy. According to department officials, the fiscal years 1991-92 and 1992-93 union agreements allow the department to comply with state policy.

Recommendation #A13-6

We recommend the department ensure teachers are paid for holidays and annual leave in compliance with state law and policy.

Response #A13-6

The department concurs and has implemented: Based on a newly negotiated contract, the department is complying with state regulations for state employees. The new contract is currently in effect.

A13-7 Retirement System

Section 19-4-302(1)(c)&(2)(a), MCA, states that any person in an instructional services capacity at a public institution of the state of Montana must be an active member of the Teachers' Retirement System (TRS). In order to be eligible for active membership, the above person must be employed in the capacity prescribed for his eligibility for at least 30 days in any fiscal year. During our testing, we noted the department has separate teacher contracts for the regular academic and summer school years. MVS and PHS had 14 summer school teachers in fiscal year 1989-90 and 11 in fiscal year 1990-91. We noted the department did not contribute or withhold employee contributions for summer school teachers at MVS and PHS.

Department personnel stated MVS summer school teachers are temporary employees. However, we noted the majority of these teachers are also under contract with the department for the regular academic year. In addition, department personnel stated PHS summer school teachers are already enrolled in TRS under the academic year contracts. However, we noted the department did not make contributions for the salaries earned on the summer school contracts.

As a result, TRS did not receive approximately \$2,930 and \$3,172 in contributions for fiscal years 1989-90 and 1990-91, respectively. Of this amount, the department's share to the retirement system would be \$1,507 and \$1,631 for fiscal years 1989-90 and 1990-91, respectively. The department should work with the summer school teachers and TRS to resolve the unpaid contributions to the retirement system.

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Recommendation #A13-7

We recommend the department:

- A. Ensure contributions to the Teachers' Retirement System are made in compliance with state law and policy.**
- B. Work with the summer school teachers and the Teachers' Retirement System to resolve unpaid contributions.**

Response #A13-7

The department concurs and is implementing: The department has implemented a policy to ensure that the eligible teachers are enrolled with the Teachers' Retirement System (TRS) in accordance with state law and policy. The department is working with TRS personnel to resolve the unpaid contributions. This problem should be corrected by June 30, 1992.

A13-8 Administrative Cost Recovery

Federal regulations allow state agencies reimbursement for indirect costs necessary for the administration of federal grants. Section 17-3-111, MCA, requires state agencies to recover indirect costs of administering federal assistance programs to the fullest extent possible. Recovery of indirect costs reduces the amount of state money required to support federal programs. During the audit, we noted the following instances where the department did not use an approved indirect cost rate or did not recover indirect costs to the fullest extent possible.

The department did not obtain federal authorization for the indirect cost rate it used during fiscal year 1990-91. In order for the department to claim indirect costs as an allowable charge, Office of Management and Budget (OMB) Circular A-87 requires an indirect cost plan. The circular further states the federal government has the responsibility for the negotiation, approval, and audit of the indirect cost proposal. According to department officials, they received verbal authorization from the

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U.S. Department of Health and Human Services to use an estimated indirect cost rate. Since the department did not receive written federal authorization for the fiscal year 1990-91 indirect cost rate, we are required to question \$438,267 of charges to a variety of U.S. Department of Health and Human Services programs, of which major funding is for the aging (CFDA #13.633, #13.635, and #13.668) and foster care (CFDA #13.645, #13.652, #13.658, and #13.674) programs.

The department's central office, MVS and PHS, each negotiate a separate indirect cost rate to recover indirect costs. The department's central office calculates its indirect cost rate by determining the percentage of total indirect costs to personal service expenditures. We noted the department's central office excluded MVS and PHS expenditures in its total indirect cost base. However, the department included MVS and PHS personal service expenditures in its personal service base. Since MVS and PHS did not include \$15,647 of fiscal year 1989-90 and \$18,215 of fiscal year 1990-91 central office indirect costs when negotiating indirect cost rates, MVS and PHS did not recover indirect costs to the fullest extent possible, in accordance with state law.

The Aging Coordinator's salary is funded in full by the General Fund under the Governor's Office budget. This position provides guidance for the aging program staff. The department provides staff and administers the aging program. In fiscal years 1989-90 and 1990-91, the aging program was approximately 86 percent funded by federal funds. We noted neither the Governor's Office nor the department included the Aging Coordinator's salary in its indirect cost calculation. According to department officials, the funding for supervisory duties of the Aging Coordinator was established under the Governor's Office and; therefore, they did not include the coordinator's salary in the department's indirect cost calculation. Governor's Office personnel stated they do not include the coordinator's salary in their indirect cost calculation since this position does not provide services to its federal programs.

In the previous audit report, we recommended the department recover indirect costs to the fullest extent possible in accordance with state law. The department concurred with our recom-

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mentation, but did not implement the recommendation. In the future, the department should:

1. Obtain authorization for indirect cost rates applied to federal programs.
2. Require MVS and PHS to include central office indirect costs when negotiating indirect cost rates, or include all MVS and PHS indirect costs in its indirect cost base and negotiate one indirect cost rate for the department as a whole.
3. Work with the Governor's Office to ensure the state recovers a portion of the Aging Coordinator's salary from the federal government in accordance with state law.

Recommendation #A13-8

We recommend the department:

- A. Obtain written federal authorization for indirect cost rates applied to federal programs.**
- B. Recover indirect costs to the fullest extent possible in accordance with state law.**

Response #A13-8

The department concurs and is implementing: The department is in the process of amending the indirect cost recovery rates. The request will be submitted by June 30, 1992, with a request to apply the rate retroactively for fiscal year 1992.

An indirect cost rate for each institution has been approved for fiscal years 1992, 1993 and 1994. The department is in the process of amending the fiscal year 1992 grant to include the indirect cost rate.

To maximize the indirect cost recovery, a rate was approved for fiscal 1993 and the department will submit a grant amendment for fiscal 1992, before June 30, 1992.

A13-9 Travel

The department processes a high volume of travel vouchers submitted by department personnel. During each of fiscal years 1989-90 and 1990-91, the department recorded approximately \$630,000 of travel expenses on the accounting records.

In testing travel vouchers at the central office, we noted four out of sixteen tested did not comply with state law or policy. In addition, we perused the fiscal years 1989-90 and 1990-91 travel voucher files at PHS and noted fourteen instances of noncompliance. For example, five travel expense vouchers claiming \$117 for meals did not document the time period the employees were in travel status. Without documenting the departure and return times, the department cannot demonstrate the employees were in travel status for meals claimed. We noted the department reimbursed an employee 26 cents per mile rather than the allowed rate of 23 cents per mile for personal vehicle use. In order to claim the 26 cents per mile, the employee must obtain an authorization form from the state Motor Pool. We noted two employees who were reimbursed \$75 for travel expenses incurred on weekends when the employees' timesheets did not reflect hours worked for the related time period. We noted two instances where the department paid for meals when the employees were not in travel status. We further noted nine instances in which employee travel expense vouchers totalling \$697 were not approved by the employee's supervisor.

Sections 2-18-501, 2-18-502, and 2-18-503, MCA, provide specific meal and lodging reimbursement rates, specify time periods an employee must be in a travel status to be eligible for meal reimbursement, and establish mileage rates which may be claimed. In addition, state policy requires the travel expense voucher be reviewed and approved by the employee's immediate supervisor.

Department personnel stated human error in reviewing the travel expense vouchers was the cause for many of the instances noted above. Additionally, department personnel stated they were not aware of requirements to be met in order to receive the higher personal vehicle reimbursement rate. Department officials stated they combined the travel expense voucher on the timesheet

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beginning in fiscal year 1991-92 to help reduce the concern of employees claiming travel expenses when the timesheets do not reflect hours worked for the related time period.

As noted in our prior audit report, the department should establish adequate policies and procedures to ensure travel rates paid to employees are in accordance with state law. In addition, the department needs to ensure supervisors responsible for approving travel vouchers have done so prior to reimbursing employees. The supervisor's signature on these claims verifies that the employee traveled and should be reimbursed.

Recommendation #13-9

We recommend the department establish policies and procedures to ensure travel reimbursements comply with state laws.

Response #A13-9

The department concurs and has implemented: The department has completed training throughout the regions on the state policy and procedures for travel claims. The department will implement a review procedure which will include a periodic review of travel claims at Central Office to ensure the supervisors are complying with the appropriate state laws.

Compliance with Federal Regulations

The department receives funding from various federal departments with the majority of its funding coming from the U.S. Department of Health and Human Services. The department recorded on SBAS \$10,156,522 and \$11,118,306 of federal expenditures during fiscal years 1989-90 and 1990-91, respectively. During the audit we noted the following areas where the department could improve procedures to comply with federal regulations.

**A13-10 Procedures for
Determining Title IV-E
Foster Care Eligibility**

The department administers the federal Title IV-E foster care program (CFDA #13.658). The objective of this program is to provide assistance on behalf of eligible children who need care away from their families and who are in the placement and care of the department. The program is funded through a combination of federal, state, and county moneys. Federal expenditures for the foster care program were \$2,877,719 and \$3,439,534 in fiscal years 1989-90 and 1990-91, respectively.

In order to be eligible for federal Title IV-E foster care reimbursements, federal regulations state recipients must have been removed from the home by means of a judicial determination or voluntary placement agreement; the child must be Aid for Dependant Children (AFDC) eligible; and the provider must be licensed by the proper licensing authority. In addition, in order to receive adoption assistance payments, the child must be Title IV-E foster care, AFDC, or Supplemental Security Income eligible; and must be a special needs child whom the state has made efforts to have adopted without a subsidy. Federal regulations also state, "For recipients of AFDC, all factors of eligibility will be redetermined at least every 6 months . . ."

We tested a sample of 59 foster care payments during fiscal years 1989-90 and 1990-91 to determine if payments were made on behalf of eligible clients. We noted the following instances where the department made payments on behalf of ineligible clients.

- In three instances payments were made on behalf of clients who did not meet the eligibility requirements for the foster care program. As a result, we question \$1,678 of costs incurred for the period tested.
- In one instance, the eligibility redetermination was back dated to include a time frame in which coverage lapsed. Therefore, we question \$625 of costs incurred for the period tested.
- In 14 instances, the department could not provide a redetermination of eligibility for payments made on behalf of foster care clients. As a result, we question \$3,018 of costs incurred for the period tested.

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- In one instance, the department could not provide a final subsidized adoption agreement nor provide documentation to ensure the client had met IV-E foster care eligibility requirements. Therefore, we question \$179 of costs incurred for the period tested.
- In one instance, the provider was not licensed for the period in which payment of \$305 was made. Therefore, we question the allowability of these charges.

According to department procedures, the initial determination and redetermination of foster care eligibility is made at the field offices. The central office reviews and approves invoices submitted by foster care providers prior to payment. However, we noted the department has not established procedures to ensure this authorization is based on current eligibility information. Department officials stated the central office relies on field staff to ensure the forms are current and accurate. Since the central office has not delegated approval authority to the field offices, the procedures used by the department increase the probability of payments made on behalf of ineligible clients.

Recommendation #A13-10

We recommend the department establish adequate procedures to ensure foster care payments are made on behalf of eligible clients in accordance with federal regulations.

Response #A13-10

The department concurs and is implementing: Under the current system, the Department of Social and Rehabilitative Services (SRS) maintains the responsibility for the financial eligibility determination and redetermination of foster care. SRS has implemented a software called The Economic Assistance Management System (TEAMS) to assist with their responsibility. The department has requested a modification of TEAMS to include the IV-E eligibility issues. The department will coordinate the interface with TEAMS and the department's new system, Management Information System (MIS). The completion date is scheduled for January 1994.

In the interim, to help in resolving this issue until the new system is developed, the department is performing policy training and will hire a new staff member to assist in federal eligibility requirements. The new staff member should be hired in May after the completion of position classification.

A13-11 Subrecipient Monitoring

The department subgrants federal financial assistance moneys it receives from the U.S. Department of Agriculture and the U.S. Department of Health and Human Services. During fiscal year 1990-91, the department awarded approximately \$9.8 million of federal funds to subrecipients. It subgrants federal funds to 11 area agencies on aging to provide a variety of services and benefits to the elderly. It also subgrants federal moneys to other nonprofit organizations for a variety of programs.

OMB Circular A-128 requires a state or local government that receives federal financial assistance and provides \$25,000 or more in a fiscal year to a subrecipient must ensure the subrecipient(s) meets certain requirements. One such requirement is to determine whether state or local subrecipients have met the audit requirements of OMB Circular A-128 (Audits of State and Local Governments) and whether nonprofit subrecipients have met the audit requirements of OMB Circular A-133 (Audits of Institutions of Higher Education and Other Nonprofit Institutions).

During our audit, we noted the department does not require subrecipients to have an audit in accordance with OMB Circular A-128 or A-133, whichever is applicable. Internal auditors at the department review audit reports of 6 of the 11 area agencies, since the 6 area agencies have independent audits performed. For those subrecipients which do not have independent audits, the department performs a review of the federal funding received by the agency under its contracts and issues a report. However, the reviews do not meet Government Auditing Standards since the audit staff has not met the continuing education requirements and an external quality control review has not been performed of the audit unit's operations. In addition, the reports do not meet the requirements set forth in OMB Circular A-128. Federal regulations require the report issued to state the audit

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was made in accordance with the provisions of this circular and the report contains the auditor's reports on the financial statements and schedule of federal financial assistance; the study and evaluation of the subrecipient's internal control system; and the subrecipient's compliance with applicable laws and regulations. A set of financial statements and a schedule of federal financial assistance should also be included in the report.

The department should ensure subrecipients have audits completed which comply with OMB Circular A-128 or A-133, whichever is applicable. The department should also establish a system to monitor the subrecipients' compliance with applicable requirements.

Recommendation #A13-11

We recommend the department:

- A. Ensure subrecipients have audits completed which comply with federal requirements.**
- B. Establish a system to monitor subrecipients' compliance with applicable requirements.**

Response #A13-11

The department concurs and has implemented: The department has developed an attachment for new contracts which addresses audit requirements. The attachment requires sub-recipients to complete an audit in compliance with the applicable OMB Circular A-128 or A-133. A separate attachment was sent to existing contracts informing the sub-recipients of the audit requirements under OMB Circular A-128 or A-133.

The department is developing a procedure to monitor a sub-recipients' compliance with applicable requirements.

A13-12 Federal Financial Reports

The federal government requires state agencies to periodically report the financial status of grants received by the state. Federal regulations require the recipient's accounting procedures be sufficient to permit preparation of reports, the recipient of the grants ensure the financial status reports contain reliable financial data, and the recipient file the final report within 90 days from the end of the grant period. In the previous audit report, we recommended the department ensure amounts on the federal financial reports reconcile to the state's accounting records. The department concurred with the recommendation. We reviewed the federal fiscal year 1989-90 aging report (CFDA #13.633, #13.635, and #13.668) submitted by the department to the federal government and noted the following problems.

- The department did not agree the report to SBAS prior to submission to the federal agency. As of December 1991, the department had not reconciled the federal fiscal year 1989-90 report to SBAS. Department personnel stated they have not had time to reconcile the report to SBAS.
- The department did not update the spreadsheet used in preparing the report for final expenditures. Department personnel stated two individuals are involved in preparing the report. One individual had not updated the computer spreadsheet prior to the other preparing the report.
- The department did not submit the final financial status report until May of 1991, approximately 150 days after it was due. According to department personnel, they were busy with other job assignments and did not file the report. In addition, they stated final invoices from the area agencies may not have been received in a timely manner.

We also reviewed the Foster Care Title IV-E (CFDA #13.658) report submitted by the department for federal fiscal year 1989-90. The department used a higher daily rate to pay foster care providers than was allowed by the federal government for the first quarter of state fiscal year 1990-91; therefore, the department needed to adjust the federal expenditures reported for federal fiscal year 1989-90. The department included an adjustment in the federal report for the months of July and August 1990; however, it had not made a \$13,095 adjustment for September 1990 as of January 1992. Department personnel were not

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aware an additional adjustment was required since the individual responsible was no longer with the department.

Since federal regulations require financial reports submitted be complete and accurate and SBAS has been designated as the state's accounting system, the department should ensure the amounts reported to the federal government are reconciled to SBAS. In addition, the department should establish adequate procedures to ensure it complies with the specific grant reporting requirements and the federal filing deadlines.

Recommendation #A13-12

We recommend the department:

- A. Ensure amounts reported on the federal financial reports are complete, accurate, and reconcile to the state's accounting records.**
- B. Establish procedures to meet federal filing deadlines.**
- C. Submit an amended Foster Care Title IV-E financial report to adjust \$13,095 of expenditures improperly reported on the federal fiscal year 1989-90 report.**

Response #A13-12

The department concurs and is implementing: The department is implementing a procedure to ensure federal reports are complete and accurate and reconciled to SBAS on a timely manner. The department is re-assigning a staff member for an extended period of time to ensure the federal reporting requirements are followed. This procedure will be in effect by June 30, 1992, to ensure fiscal year end procedures are implemented correctly.

An amended foster care report has been submitted to adjust for expenditures that were improperly reported.

A13-13 Contract Requirements

The department subgranted with approximately 31 organizations in fiscal year 1989-90 and 24 in fiscal year 1990-91 to carry out federal projects related to child abuse and neglect (CFDA #13.669). Federal regulations prohibit the use of federal moneys for partisan political activity. Federal regulations also state that no person shall be excluded from participation in or be subjected to discrimination in any program funded by federal funds based on race, color, age, handicap or national origin. For subgrantees awarded child abuse and neglect funds, the department does not include in its contracts with subgrantees a requirement that the subgrantees comply with these regulations. According to department personnel, they include these requirements in its contracts with most subgrantees. However, they use a separate contract, with these requirements omitted, for smaller child abuse and neglect contracts. The department could include language that prohibits use of federal funds for political activity and require compliance with the Civil Rights Act in its contract with subgrantees.

Recommendation #A13-13

We recommend the department include language that prohibits use of federal funds for political activity and require compliance with the Civil Rights Act in its contracts with subgrantees.

Response #A13-13

The department concurs and has implemented: The department has incorporated standard boiler plate language in all contracts with sub-grantees. The standard language address the required compliance with the Civil Rights Act and prohibits the use of federal funds for political activity. For existing contracts, attachments were mailed which required a signed copy to be returned to the department.

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A13-14 Drug-Free Workplace

The Drug-Free Workplace Act requires agencies receiving grants from any federal agency to certify it will provide a drug-free workplace. The grantee's certification requires publishing a statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violating the regulation.

The department issued a memorandum to each employee informing them of the requirements. It required the employee to sign and date the memorandum to indicate the employee had been provided the information. This memorandum is included in the employee's personnel file. Out of 29 personnel files reviewed, we found 15 files did not contain the signed memorandum. According to department personnel, the department sent second notices to employees who had not returned their memorandums. However, they indicated they did not have time to perform further follow-up.

Recommendation #A13-14

We recommend the department enforce its policy requiring employees to sign the memorandum to indicate the employee had been provided information about the Drug-Free Workplace Act.

Response #A13-14

The department concurs and has implemented: The department has implemented a policy for newly hired employees to receive the notification of a drug free work place. The new employee is required to return the document signed within seven days. The department is making time to complete a follow up to ensure the federal regulation is followed and a completed signed form is in each employee file.

**A13-15 Management
Controls**

Primary functions of management include organizing, directing, and controlling the activities of an entity in order to accomplish the objectives of the entity. The methods management adopts to carry out these functions constitute the management control system. In the prior audit report, we discussed areas where management could improve its direction and control of staff activities. The department concurred with all seventeen recommendations contained in the prior audit report; however, we noted the department partially implemented two and fully implemented only four of those recommendations. In our current report we again believe the preceding report sections are areas where management needs to implement and monitor procedures and policies to address concerns noted.

During the past four years, five directors have been appointed to the department. Department officials cited the turnover in management as part of the reason why many of the prior audit recommendations were not implemented. Many of the problems we noted occurred due to department personnel not receiving adequate training regarding laws and accounting policies; key accounting personnel not providing adequate supervision and guidance to employees and not thoroughly reviewing transactions recorded on the state's accounting records; and breakdown in communication within the department. We believe the issues discussed in these report sections relate to establishing systems and adequate procedures and should be addressed by different levels within the department's organization.

The recommendations made in the preceding report sections would, if implemented, improve department operations and compliance with state and federal laws and policies. In addition to these recommendations, we noted a need for management's increased awareness and knowledge of state and federal laws and policies and employee's work in order to ensure management controls are adequate. Some additional steps management should consider to improve operations include:

1. Providing adequate training to its employees.
2. Providing more supervision and review of its employees' work.

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3. Improving communications between personnel within the department.

Many of the examples mentioned in this report indicate the department did not have systems in place to prevent or detect errors. As the department addresses the recommendations in this report, it should not only review and correct the specific items mentioned, but it should also establish and monitor systems to minimize future errors.

Recommendation #A13-15

We recommend the department:

- A. Provide training to personnel at all levels to enhance compliance with state and federal laws and policies.**
- B. Adequately supervise and review department personnel's work to ensure errors are minimized and detected in a timely manner.**
- C. Improve communications between personnel within the department.**

Response #A13-15

The department concurs and is implementing: The department is in the process of evaluating the staff to determine the need for additional training on an individual basis. The current internal controls the department has in place are being re-evaluated to determine the need for new and stronger controls. The department is taking a active roll in increasing the office communications. With this additional effort on the department's behalf, and the implementation of the audit recommendations it is anticipated that the previous issues will be substantially reduced or eliminated.

The department is striving to comply with the audit recommendations. Of the twenty-two recommendations, the department has completed five, partially completed eight, and has placed into practice seven recommendations. One recommenda-

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tion may not be complete before January of 1994, and intermediate steps are waiting for a position classification approval.

It is the department's position that twenty-one of the twenty-two recommendations will be implemented by September, 1992. The department would be happy to report to the Legislative Audit Committee at that time on the results of the implementation of these audit recommendations.

Department of Commerce

A14-1 Federal Compliance

We tested compliance with federal laws for federal assistance programs administered by the Department of Commerce (department). We designed our procedures to satisfy the requirements of the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128 as applied to the state of Montana's reporting entity. We specifically tested compliance and expenditure allowability for grants funded by the U.S. Department of Housing and Urban Development (HUD) for the Section 8 Housing Program (CFDA #14.156) and the Community Development Block Grant (CDBG) (CFDA #14.228). We also tested the reasonableness of the Statements of Federal Land Payments for the federal fiscal years ending September 30, 1989 and 1990, which are submitted to the U.S. Department of the Interior, Bureau of Land Management, under the Payment in Lieu of Taxes Act. The following three sections discuss our concerns relating to federal reports prepared by the department.

Statements of Federal Land Payments

The Payment in Lieu of Taxes Act (PILT), Section 6903(b)(2), specifies that the Chief Executive Officer of each state shall furnish the Secretary of the Interior with a listing of the amounts received by counties under the 11 revenue sharing laws of the act.

During our review of the Statements of Federal Land Payments provided to the Secretary of the Interior, we noted the department reported the incorrect amount for several counties in both federal fiscal years. The largest mistake resulted in Wheatland County receiving an excess of \$59,749 in PILT funds and Valley County being shorted by \$37,955 for the period ending September 30, 1989.

Department personnel stated the information was misread and reported for the wrong county when preparing the statement. The error was not found before the report was sent to the Secretary of the Interior. The department currently has no review procedures to ensure the Statements of Federal Land Payments contain the correct amounts for each county.

Indirect Cost Plan

Federal regulations allow state agencies to request reimbursement for indirect costs necessary for the administration of federal programs. The cost principles governing the allowability of indirect costs under government awards is included in OMB Circular A-87. The costs included in the indirect cost plan should include costs incurred within the period.

The department has an approved indirect cost plan and a system to request reimbursement. However, the department's indirect cost plan proposal contained financial data from the wrong fiscal year and omitted expenditures from one source. The indirect cost rate proposal would not have changed because the two errors offset each other. We do not question any program costs. Department management indicated they have strengthened the review process to detect and correct errors in the indirect cost plan before submitting the report.

Performance and Evaluation Reports

The department prepares a Performance and Evaluation Report annually on the Community Development Block Grant award (CFDA #14.228). This report contains general CDBG information for the projects in process. During our review of the fiscal year 1989-90 report, we noted the submission date was October 25, 1990. Federal regulations, 24 CFR 570.498, state the report shall be submitted no later than October 1 of each fiscal year. Department personnel said employee turnover caused information to be misplaced and therefore, the report was not completed by October 1. The department said they had a verbal extension of 30 days from the federal agency. The fiscal year 1990-91 report was submitted on time.

Recommendation #A14-1

We recommend the department:

- A. Develop procedures to ensure federal reports contain accurate information.**
- B. Submit federal reports in a timely manner.**

Response #A14-1

The department concurs with the recommendation. In regard to the PILT report and CDBG reports, the department has reviewed the appropriate timing and reporting procedures and has installed additional cross checking activities to prevent a reoccurrence of these concerns.

In regard to the indirect cost plan, the department had already strengthened its review process prior to the start of the audit. Omission of expenditures from one source when calculating the indirect cost plan was caused by a misinterpretation of the source of Exxon Oil funds. The funds, which are from a private source, were funnelled through a federal agency (DOT) and through a state agency, thereby changing the identity of the funding source for accounting purposes.

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A15-1 Abandoned Mine Bureau Contracting Procedures

The Department of State Lands' (department) Abandoned Mine Bureau receives its funding from the U.S. Department of Interior's Office of Surface Mining Reclamation and Enforcement to administer Title IV of the Federal Surface and Mining Control and Reclamation Act of 1977 (CFDA #15.252). The bureau contracts with engineering and construction firms to design and complete reclamation of abandoned mines. The department's contract expenditures for the Abandoned Mine Program were approximately \$6,134,000 and \$3,934,000 in fiscal years 1989-90 and 1990-91, respectively.

An adequate system of internal control should include the segregation of incompatible functions. Incompatible functions are those that place a person in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. In our prior audit report, we recommended the department separate the duties of selecting contractors, authorizing contracts, and approving expenditures. The department concurred with our recommendation and took corrective action by moving the responsibility of authorizing contracts from the Abandoned Mine bureau chief to the department's commissioner. However, the bureau chief continued to control the selection of contractors by approving the notice of contract award.

Because the department made a settlement with a contractor based on the obligation created under a notice of contract award, department personnel reviewed their contracting procedures. The department determined its obligation to the contractor begins with the notice of contract award and not with the actual contract. Therefore during the audit period, the department did not have an adequate segregation of duties. In September 1991, the department changed its procedures and now requires the commissioner to sign the notice of contract award.

Department procedures require the approval of the bureau chief and project manager on each contract expenditure prior to payment. However, during our audit period, we found the bureau chief also acted as project manager on reclamation projects. In the instances where the bureau chief was also the

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project manager, there was no second review or approval of the contract expenditures. The department could strengthen its controls by performing an independent review of contract expenditures prior to payment whenever the bureau chief is the project manager.

Recommendation #A15-1

We recommend the department continue to improve controls over contracting and expenditure procedures for the Abandoned Mine Bureau.

Response #A15-1

Concur. We are continuing to improve our controls over contracting and expenditure procedures. The involvement of the Bureau Chief as a Project Manager will be reviewed by a third party, such as the Administrator or designee.

A15-2 Schedule of Federal Financial Assistance

The Governor's Office prepares and submits a Federal Single Audit Report to the federal government in compliance with the Single Audit Act of 1984. Included in the report is a Schedule of Federal Financial Assistance, which shows the total assistance received by all state agencies for each federal financial assistance program. The Single Audit Act defines federal financial assistance as assistance provided by a federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property interest subsidies, insurance, or direct appropriations. In order to prepare the statewide Schedule of Federal Financial Assistance, the Governor's Office requests each agency to prepare its own Schedule of Federal Financial Assistance based on its accounting records. To facilitate the preparation of the schedules, the Governor's Office provides directions on what information agencies should include on their schedules. The directions state the schedule should include total current year, prior year, and indirect cost expenditures related to the department's federal financial assistance programs.

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In preparing its Schedule of Federal Financial Assistance for fiscal years 1989-90 and 1990-91, the department omitted or misstated the items shown in the following table.

Summary of Errors on the Schedule of Federal Financial Assistance

Program Name	CFDA Number	Fiscal Year 1989-90		Fiscal Year 1990-91	
		Amount Reported	Correct Amount	Amount Reported	Correct Amount
Agriculture Conservation	10.063	\$ 8,610	\$ 8,034	\$ 8,000	\$ 9,029
Forestry Incentives Program	10.064	2,000	2,260	2,000	2,720
Cooperative Forestry Assistance	10.664	434,200	196,772	905,578	322,912
Rural Community Fire Protection	10.664	61,500	68,104	69,580	70,761
Resource Conservation	10.901	16,000	19,682	16,000	19,165
Watershed Effects	10.904	43,000	23,000	0	Unavailable
Administration and Enforcement	15.250	555,871	610,095	733,854	807,456
AML Construction	15.252	3,821,212	3,821,240	1,034,333	1,034,361
AML Administration	15.252	1,941,397	1,992,757	2,239,505	2,298,572
Federal Fire Reimbursement	10.999	0	543,280	0	656,339
Fire Protection Coop. Agree.	15.999	0	103,179	0	69,482
Conservation Reserve Program	10.069	0	133	0	0
Western Governors' Association	66.999	0	0	0	6,993
Section 319	66.460	0	0	0	28,548

Source: Compiled by the Office of the Legislative Auditor from SBAS records.

Department personnel indicated they were unaware of the reasons for preparing the schedule and unsure as to what they should include on the schedule. Department personnel should consult with the Governor's Office to obtain the assistance necessary to properly complete the schedule. The Governor's Office corrected the statewide schedule of federal financial assistance for most of the errors noted above.

We also found the department's accounting records did not adequately support the fiscal year 1990-91 expenditures related to the Watershed Effects grant (CFDA #10.904). Office of Management and Budget Circular A-102 states, "grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities."

The Watershed Effects grant was a two-year grant for \$43,000. The department spent \$23,000 in fiscal year 1989-90, leaving \$20,000 of spending authority in fiscal year 1990-91. However, the department's accounting records show \$49,839 in expenditures in the related responsibility center for that fiscal year.

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Department personnel stated they have both state and federal moneys reported in the responsibility center. They could not identify which expenditures related to this particular grant without looking at each individual expenditure transaction. For this reason, we are unable to determine the amount expended for the Watershed Effects grant in fiscal year 1990-91.

The department should track and identify grant expenditures separately. This should also facilitate preparing the Schedule of Federal Financial Assistance.

Recommendation #A15-2

We recommend the department:

- A. Seek assistance from the Governor's Office as necessary when preparing the Schedule of Federal Financial Assistance.**
- B. Ensure the accounting records adequately identify federal expenditures.**

Response #A15-2

- A. Concur. The department is currently working with Governor's Office so we will comply with the requirements of the Federal Schedule.**
- B. Concur. We are currently setting up a procedure to identify and separate the amounts expended for both state and Federal monies.**

Department of Agriculture

A16-1 Property, Plant, and Equipment

State accounting policy requires state agencies to record all property, plant, and equipment which costs in excess of \$1,000 on the Property Accountability Management System (PAMS). Agencies can maintain a lower capitalization limit if desired. The Department of Agriculture (department) chose to maintain a \$200 limit.

We reviewed twelve equipment purchases over the \$200 limit from each of fiscal years 1989-90 and 1990-91. Of the 24 purchases reviewed, 5 totaling \$5,547 in fiscal year 1989-90 and 3 totaling \$3,706 in fiscal year 1990-91 were not recorded on PAMS as of February 26, 1992. This issue was also noted in the previous audit report of the department. Department personnel noted that at times the divisions do not submit the proper forms to Central Management Division to allow for proper entry on PAMS. If the form is submitted, it may contain errors which have to be resolved before recording the item. In addition, department personnel noted that other duties of Central Management Division employees often are a higher priority, thus leading to items not being recorded on PAMS.

Federal regulations require the department expend federal funds in compliance with state regulations. The department recorded equipment expenditures in the Consolidated Pesticide Compliance Monitoring and Program Monitoring Agreement (CFDA #66.700) and the Food and Drug Administration - Research (CFDA #13.103) programs in fiscal years 1989-90 and 1990-91. We did not note any specific exceptions related to equipment purchased with federal funds; however, the potential does exist that equipment purchased with federal funds may not be recorded properly.

The department's policy states that divisions submitting equipment purchases over \$200 to Central Management Division must also submit a PAMS property update form. If the department enforced its policy, the time needed to maintain a current property record is minimal.

Recommendation #A16-1

We recommend the department follow established procedures to ensure all equipment is recorded on the Property Accountability Management System.

Response #A16-1

We concur. The department will make every effort to process PAMS forms and process payments for equipment simultaneously in accordance with department policy. Amounts referenced in audit report have been recorded on PAMS to account for all equipment purchased to date.

Department of Justice

A17-1 Indirect Cost Reimbursement

Section 17-3-111, MCA, states in part, "grantee agencies shall, in accordance with federal regulations and guidelines, negotiate indirect cost rates and endeavor, to the fullest extent possible, to recover indirect costs of federal assistance programs." State policy requires agencies prepare an indirect cost proposal to claim indirect costs for both the overhead costs originating in an agency performing a grant or contract and the costs of central government services distributed through the statewide cost allocation plan (SWCAP) and not otherwise treated as direct costs. During our audit, we noted two instances where the department did not recover costs of federally supported programs.

Highway Traffic Safety Division did not prepare an indirect cost proposal to recover indirect cost related to the SWCAP. The division was allocated \$1,726 and \$1,210 in fiscal years 1989-90 and 1990-91, respectively for SWCAP costs. A portion of these costs may have been recoverable if an indirect cost proposal had been prepared and approved by the federal government. The division receives federal funds from the U.S. Department of Transportation (State and Community Highway Safety, CFDA #20.600). Division personnel stated the maximum amount of administrative cost was already charged to these programs as direct charges. At a minimum, the division should negotiate with the federal government to recover SWCAP indirect costs and seek recovery for the indirect costs before charging direct administrative costs.

The Department of Justice had a negotiated indirect cost rate of 7 percent of personal services applicable to all programs. We noted the department did not recover indirect costs of \$3,977 and \$700 in fiscal years 1989-90 and 1990-91, respectively, related to the Commercial Driver License Program (CFDA #20.218). Department personnel indicated an oversight resulted in the indirect costs not being recovered.

Recommendation #A17-1

We recommend Highway Traffic Safety Division and Department of Justice recover allowable indirect costs of administering federal programs in accordance with state law.

Response #A17-1

Highway Traffic Safety Division: We concur. The indirect costs related to the SWCAP should be recoverable. However, the Department of Administration should assist agencies in recovering these costs by developing proper billing documents at the end of each fiscal year for federal cost participation. The Division will seek such documents from the Department of Administration.

Department of Justice: The Department concurs. The Department will endeavor, to the fullest extent possible, to recover indirect costs from all federal assistance programs administered by the Department.

A17-2 Accounting Issues

Section 17-1-102, MCA, requires the department's accounting records disclose financial information in accordance with generally accepted accounting principles (GAAP) at the end of the fiscal year. The Department of Administration, Accounting Bureau, establishes state policies for agencies to follow to ensure information recorded on the state's accounting records (SBAS) complies with GAAP. We noted the following instances where the amounts recorded on SBAS did not comply with state accounting policy and GAAP.

- The department did not properly record revenue and expenditures related to a U.S. Department of Transportation (CFDA #20.218) Motor Carrier Safety Assistance Program (MCSAP) grant. The department incorrectly recorded revenue earned in June and fiscal year-end as revenue of the subsequent fiscal year. As a result, assets and fund balance in the MCSAP Special Revenue Fund account are understated by \$46,807 at fiscal year-end 1990-91.

Department personnel improperly interpreted the state policy for recording transactions during the year-end closing process.

- The department incorrectly classified equipment purchases (such as bookshelves) as operating expenses rather than equipment. Operating expenses, per state policy, do not include purchases of assets intended for long-continued use or possession. Purchases of new and replacement equipment which is greater than \$25, has a nonconsumable nature, and has an estimated life of more than one year is classified as equipment expenditures. Department personnel indicated that during much of the audit period they classified equipment costing less than \$200 as supplies operating expenses. The department recently revised its internal policy and records equipment expenses only when the purchase was budgeted as an equipment expense. Department personnel indicated it was not practical to develop equipment budgets for the legislature requesting items with unit costs under \$200. They further indicated the Department of Administration should review the policy concerning equipment expenditure classifications and set a more realistic dollar level for minor nonconsumable equipment. The Department of Administration is currently determining if a change in the policy is needed.
- The Highway Traffic Safety Division did not ensure the fund balance of its federal Special Revenue Fund accounts was properly reported at fiscal year-end 1990-91. Highway Traffic Safety Division personnel analyzed the federal special revenue accounts and attempted to process adjusting entries. However, the adjusting entries did not process in time to meet the year-end cut-off date. As a result, the fund balance in the Special Revenue Fund is overstated by \$38,503 at fiscal year-end 1990-91. Highway Traffic Safety Division personnel should monitor the daily processing of transactions to ensure adjustments occur during the proper time period.
- The department incorrectly recorded travel costs for a conference held in December 1990 as fiscal year 1989-90 expenditures. The cost of attending the conference was reimbursed by a Missing Children grant. The department recorded the reimbursement revenue as fiscal year 1989-90 revenue. Therefore, fiscal year 1990-91 revenue and expenditures are understated by \$1,506 in the Special Revenue Fund. Department personnel explained they had not obtained a budget amendment for the Missing Children grant and, therefore, did not have the appropriation

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authority to properly charge the expenditure. After they obtained the budget amendment, personnel indicated they failed to transfer the expenditures and revenue to the proper account.

Without all financial activity properly recorded on SBAS, the quality, consistency, and comparability of the resulting management information is affected.

Recommendation #A17-2

We recommend the Department of Justice and Highway Traffic Safety Division ensure its accounting records disclose financial activity in accordance with state law and policy.

Response #A17-2

Department of Justice: The Department concurs. The Department is extremely conscious of our responsibility to disclose financial activity in accordance with state law and policy and we make every effort to comply with the many state laws and policies guiding the disclosure of financial activity.

Highway Traffic Safety Division: We concur. The Division will continue to monitor the daily processing of transactions and will work to assure the fund balance are accurate at the fiscal year end.

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Carl D. Perkins Vocational Education Program

The Board of Regents of Higher Education is the sole state recipient of funds from the Carl D. Perkins Federal Vocational Act (Vocational Education - Basic Grants to States, CFDA #84.048; Consumer and Homemaking Education, CFDA #84.049; and Community Based Organizations, CFDA #84.174) under section 20-16-102, MCA. On behalf of the board, the Commissioner of Higher Education (CHE) administers post-secondary level grants and contracts with the Office of Public Instruction (OPI) to administer primary and secondary school grants. Perkins grants are used to promote vocational-technical education in the state. CHE expended \$4,493,081 and \$4,377,093 for the Perkins Programs in fiscal years 1989-90 and 1990-91, respectively. These amounts include transfers to OPI of \$2,597,502 and \$2,408,550 in fiscal years 1989-90 and 1990-91, respectively.

Federal regulations require CHE to prepare a state plan which outlines the procedures established to administer the Perkins grants and provides assurance that program activities will comply with appropriate federal and state laws and policies. We tested CHE's compliance with requirements applicable to the Perkins grants. The following three sections discuss the issues we identified during testing. We also identified unallowable travel expenditures charged to the Perkins grants, as discussed in issue B1-4.

B1-1 Matching Funds

OMB Circulars A-102 and A-110 establish criteria for the allowability of cash and in-kind contributions made to satisfy cost sharing and matching requirements of federal grants. Generally, these circulars require that cost sharing or matching consist of project costs not borne by the federal government that are "necessary and reasonable for proper and efficient accomplishment of project objectives." Federal regulations specific to the Perkins program (34 CFR 401.94) limit the federal share of most Perkins projects, services and activities to 50 percent. We interpret these regulations to require that match be used to accomplish Perkins program objectives. We also interpret these regulations to require CHE to use expenditures identified in the

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state plan for improvement, innovation, or expansion of vocational-education programs as match under Part B.

During fiscal years 1989-90 and 1990-91, CHE reimbursed school districts for bond payments on vocational-technical center buildings totaling \$730,905 and \$717,068, respectively. CHE reported \$432,369 and \$254,200, respectively, of these reimbursements as state match for several Perkins grant projects under Parts A and B of the program (CFDA #84.048). For example, CHE used \$78,503 of the bond payments as match for Perkins projects on vocational education research, curriculum development, and personnel development at Northern Montana College during fiscal years 1989-90 and 1990-91.

CHE personnel stated they believe the bond payments are allowable match under 34 CFR 401.60(b)(8) which says the state may use funds to accomplish the purposes of the grant by supporting "... construction of area vocational education school facilities in areas having a demonstrated need for those facilities. . ." They also believe the bond payments are allowable match based on discussions with federal program officials and questions and answers regarding 34 CFR 401.94 published in the Federal Register on August 16, 1985. The answers state the match requirement does not apply on an activity-by-activity basis, but does apply on a program basis or to each allotted portion of the grant (such as the programs for disadvantaged or handicapped persons, or the allotment for administration). The answers applicable to Part B also refer to 34 CFR 401.59, which states the funds shall be used to meet the needs identified in the state plan for improvement, innovation, or expansion of vocational education programs.

Based on our interpretation of the federal requirements and state plan applicable to the Perkins grant, as well as discussions with federal audit officials, it is not clear whether all the bond payments are allowable match. Portions of the bond payments CHE reported as match may not be allowable because they were not used to meet the needs identified in the state plan, included unallowable costs (such as interest), or benefitted other programs.

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Because the applicable federal regulations are not clear and have been interpreted differently by federal program and audit officials, CHE personnel should work with the federal audit and program officials to resolve this issue for periods prior to fiscal year 1991-92. Beginning in fiscal year 1991-92, the program no longer requires matching funds.

Recommendation #B1-1

We recommend the Commissioner of Higher Education work with federal officials to determine the allowability of vocational-technical center bond payments as matching funds for federal Perkins' projects.

Response #B1-1

Concur. The Office of the Commissioner of Higher Education believes that we have already complied with this recommendation. Considerable research was done on this topic before the decision was made that the bond payments could be appropriately used as match. As cited in the audit report, page 33300 of the Federal Register, (Vol. 50. No. 159) states, "Federal expenditures under Title II, Part B of the Act must be matched with non-federal funds spent for the same purposes authorized by Part B of Title II, but the match requirement is aggregate and does not apply on an activity-by-activity-basis (emphasis added). The next page of the same federal register responds in the affirmative to the question, "Can State or local funds used to maintain vocational education programs be used to match Federal expenditures under Part B of Title II of the Act?"

The State Director of Vocational Education will attempt to get a ruling in writing from the Department of Education, Office of Adult and Vocational Education.

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B1-2 Subrecipient Monitoring

Federal law requires CHE to perform program reviews of 20 percent of the Perkins grant (CFDA #84.048, #84.049, and #84.174) subrecipients on an annual basis. In addition, OMB Circular A-128 requires recipients of federal financial assistance, such as CHE, that provide \$25,000 or more to a single subrecipient, to determine whether subrecipients met the audit requirements of the circular and the program. OMB Circular A-128 also requires CHE to resolve any issues noted at the subrecipient level, whether through audit reports or program reviews, within six months.

In the prior CHE audit, we reported CHE did not have procedures to adequately monitor subrecipients' compliance with federal audit requirements and to ensure subrecipients correct deficiencies noted during program reviews. CHE partially implemented our recommendation to establish a system to monitor Perkins subrecipients for compliance with federal audit requirements and establish procedures to resolve deficiencies noted during its program reviews. CHE staff now obtain audit reports of post-secondary subrecipients and review them for issues of noncompliance.

When CHE staff identified noncompliance during the fiscal year 1989-90 and 1990-91 post-secondary reviews, they notified the subrecipient and usually requested corrective action. However, the issues CHE identified were not always resolved until CHE staff performed a follow-up program review one year later. CHE personnel stated they did not realize OMB Circular A-128 applied to program reviews.

CHE personnel reviewed the Montana Single Audit Report for issues affecting the Perkins grants at state post-secondary subrecipients, but not to determine if there were such issues at OPI. CHE staff said they thought our office would notify them if there were issues affecting the Perkins grants at OPI. Since CHE contracted with OPI to administer over 55 percent of its Perkins funds during the audit period, it should have procedures to ensure OPI administered the funds in accordance with federal regulations.

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Because CHE does comply with these federal regulations, it may be inappropriately disbursing federal funds to subrecipients. CHE should review the appropriate Single Audit Report for federal issues relating to each of its state subrecipients receiving \$25,000 or more and establish procedures to ensure the issues are resolved within six months.

Recommendation #B1-2

We recommend the Commissioner of Higher Education:

- A. Establish procedures to ensure issues identified during its program reviews of Perkins grant subrecipients are resolved within six months.**
- B. Establish a system to ensure Perkins grant subrecipients comply with federal audit requirements.**

Response #B1-2

- A. Partially Concur.** The Board of Regents, as sole state agency for the federal Carl Perkins funds, requires subrecipients to comply with OMB Circular A-128. Specifically, all subrecipients who receive more than \$25,000 in federal funds during the program year must contract for an audit in compliance with A-128. The Office of the Commissioner of Higher Education (OCHE) reviews these audit reports and immediately works to resolve any major findings, which complies with the six-month requirement of A-128.

Additionally, OCHE conducts annual performance reviews on a minimum of 20% of Perkins grantee agencies in the fall immediately following the end of the program year. Once an issue of significance is discovered, OCHE continues to work with the grantee agency continuously until the issue is resolved. This is almost without exception completed within six months. When a minor issue is discovered, OCHE notifies the recipient of the issue by letter and then follows-up with a repeated performance

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review the following year. The staff of OCHE believes we are enforcing the letter and spirit of A-128 even more strictly than necessary when we review subrecipients with minor findings again the following year.

The Office of the Commissioner of Higher Education will continue to make every effort to have audit findings resolved within six months. However, even A-128 states that "corrective action should proceed as rapidly as possible".

- B. Concur. The Financial Assistant for Perkins Grants and Vocational Technical Center Administration will review the Montana's Single Audit Report for recommendations relative to any recipients or subrecipients of Carl Perkins funds.

B1-3 Unsupported Charges

Salaries and Benefits

Federal regulations require grant recipients to support the salaries and benefits of employees chargeable to more than one program with appropriate time sheets or time and effort certifications. The method used to allocate salaries and benefits should produce a fair distribution of time and effort between the programs served.

We reviewed the payroll records for those employees whose salaries and benefits were charged to the Perkins grant (CFDA #84.048) during the audit period. CHE charges the Perkins grant for the entire salary and benefits of a CHE employee who performs duties related to other state vocational-technical education functions in addition to those performed for the Perkins grant. CHE also prorates the salaries and benefits for two additional employees at 35 percent and 65 percent to the Perkins grant, respectively.

The actual time these employees spend performing grant related duties is not documented on time sheets or through time and effort certifications. Therefore, the payroll charges are not

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supported by the actual amount of time each individual spent on each grant. Based on our review of the payroll records and discussions with agency personnel, we determined the percentage allocations used in the payroll records do not provide a fair distribution of time and effort for employees who have state and federal duties. As a result, we question salaries and benefits of \$46,539 and \$53,089 charged to the federal share of the Perkins grant during fiscal years 1989-90 and 1990-91, respectively, for the three employees who worked on the grant part time.

Agency personnel allocate salaries and benefits based upon the ratio of federal and General Fund moneys the legislature appropriated for each position. Agency personnel stated the budget allocations set by the legislature did not correspond to the budget allocations proposed by CHE. They also indicated CHE personnel established their budget allocations based upon their estimate of the actual time spent on the grant. CHE employees should allocate time spent by grant on time sheets or prepare time and effort certifications to support salaries and benefits charged to federal programs. Such documentation would also provide a basis for proposing appropriate budget allocations between federal and state funds.

State Vocational- Technical Education Program

Federal regulations require direct charges to a federal grant be specifically identifiable to the grant to be allowable. We found CHE charged the Perkins grant for state vocational education expenditures which are not specifically identifiable to the Perkins grant. Although it was not practical to determine the extent of such expenditures, the following paragraph describes the charges questioned during the audit.

We tested a sample of 31 expenditure transactions charged to the Perkins grants for allowability. One transaction charged a month of long distance phone calls made by an employee working in the state's vocational-technical education program to the grant. The purpose of the long distance phone activity is not documented. Because there is no supporting documentation to identify the phone calls as an expense incurred specifically for the Perkins grant, we question \$42 of long distance phone calls charged to the Perkins grant (CFDA #84.048) for the month tested.

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CHE charges all long distance phone calls made for the state vocational-technical education program to the Perkins grant. Agency personnel said General Fund authority was not established for the state vocational-technical education program in fiscal years 1989-90 and 1990-91, so they charged the program's expenditures against the Perkins grant.

Recommendation #B1-3

We recommend the Commissioner of Higher Education establish procedures to document and charge only allowable costs to the Perkins grant.

Response #B1-3

Concur. The Office of the Commissioner of Higher Education (OCHE) assumed control of the state's five vocational technical centers and became the sole state agency for the administration of the federal Carl Perkins funds beginning July 1, 1987. When the state legislature transferred these responsibilities to OCHE from the Office of Public Instruction, one program was established. The administration component of this program (excluding the gender equity function) was funded half by state general funds and half by federal funds. Four employees were assigned to this program and their funding split was 50/50 as well. This funding split for expenditures related to both Perkins and Vo-Tech Administration continued to operate out of this one program for two biennia. All employees charged to this program worked exclusively on the cited functions.

Beginning fiscal year 1992, the state legislature split these two functions into two programs. The administration component of the "Carl Perkins Administration" program is funded half by general fund and half by federal and the Vo-Tech Administration program is funded entirely with state general funds. The employees are assigned to the appropriate programs.

The Office of the Commissioner of Higher Education is currently working to design time and effort certification forms

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to be completed by all employees who are split-funded. This form will be completed by the end of April 1992.

B1-4 Talent Search

Talent Search (CFDA #84,044) is a federal program designed to provide career and financial aid counseling to low-income, physically handicapped, and culturally deprived students. CHE expended \$221,486 and \$230,341 for the Talent Search program in fiscal years 1989-90 and 1990-91, respectively. We tested expenditure transactions charged to the Talent Search program and noted situations where expenditures charged to the program were not made in accordance with state law or policy. For an expenditure to be an allowable charge to a federal grant, it must be authorized or not prohibited by state law or policy; and be consistent with policies, procedures, and regulations which apply to both federally assisted and state activities. The following two subsections address state compliance issues identified during our testing which affect the allowability of federal charges.

Travel Expenditures

The Talent Search program incurred travel expenditures for fiscal years 1989-90 and 1990-91 of \$24,383 and \$27,921, respectively. The Perkins grant (CFDA #84.048) incurred travel expenditures of \$19,188 and \$28,948 for the same fiscal years, respectively. During a review of travel claims processed during the audit period, we identified four claims for meals not allowable under state law. CHE authorized and reimbursed employees \$29 for midday and evening meals claimed by employees not in travel status for the time periods required in section 2-18-502, MCA. We question unallowable travel expenditures of \$25.50 and \$3.50 charged to the Talent Search and Perkins grants, respectively. Based upon discussion with agency personnel, these meals were authorized and reimbursed as a result of human error. CHE should request reimbursement of these travel expenditures from the employees involved.

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Personal Phone Calls

Long distance phone call expenditures for Talent Search administration were \$3,365 and \$3,865 in fiscal years 1989-90 and 1990-91, respectively. We selected four months between June 1989 and December 1991 and reviewed long distance phone calls made during those months by Talent Search employees. A Talent Search employee made \$13 in personal long distance calls on the state phone system during three months of the period tested. State policy requires essential personal long distance calls be either collect, charged to a third-party nonstate number, or charged to a personal credit card. The Talent Search employee was aware of state policy regarding personal phone use and stated the calls were an error in professional judgement. Because the employee reimbursed the program for the cost of the personal calls, we do not question any costs.

Recommendation #B1-4

We recommend the Commissioner of Higher Education establish procedures to ensure employees comply with state travel and telephone use laws and policies.

Response #B1-4

Concur. The personnel policies of the Office of the Commissioner of Higher Education address these issues. All employees have been provided with copies of this manual. The telephone usage policy states:

"The facilities of the state's telecommunication systems are provided for the conduct of state business. In addition to state business, the state's telecommunication systems may be used by employees for local and long distance calls to latch-key children, teachers, doctors, day-care centers and baby sitters, to family members to inform them of unexpected schedule changes, and for other essential personal business. The use of the state's telecommunication systems for essential personal business must be kept to a minimum, and not interfere with the conduct of state business. Essential

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personal long distance calls must be either collect, charged to a third party non-state number, or charged to a personal credit card."

The Talent Search employee referred to in the report reimbursed the program for the questioned phone calls. It is the policy of the Commissioner that program directors are responsible for the phone calls charged to their programs. The supervisor of the Talent Search Program will conduct periodic reviews to ensure that all long distance calls charged to the program are appropriate.

The travel policies of the Commissioner of Higher Education are set in accordance with 2-18-501 et seq., MCA. All employees are provided with changes to the statute and changes to state policies relating to travel. When an employee completes a travel expense voucher, the supervisor of the employee's program must approve the reimbursement thereby ensuring the appropriateness of the travel. The voucher is then forwarded to the Fiscal Division. The fiscal staff then reviews the voucher prior to payment in order to ascertain that correct amounts are claimed for reimbursement. The Commissioner of Higher Education believes that these procedures are adequate to ensure that most errors are caught prior to issuing a state warrant to the employee. The travel errors cited in the report were a result of human error. Considering the size of the fiscal staff in the Office of the Commissioner of Higher Education, very few errors occur in the reimbursement of travel.

Eastern Montana College

B2-1 Grant Controls

Eastern Montana College (EMC) receives grants from a variety of sources, including state and federal agencies. Federal grants are received from the Department of Education, the National Park Service, and the National Science Foundation. Many of the grants allow personal service expenditures as a use of the funds. Federal grant regulations (Office of Management and Budget [OMB] Circular A-21) require a recipient to have a system to ensure charges to grants reflect actual time and effort.

We noted EMC has a system to determine actual time and effort spent on the grants. EMC establishes an estimate of the amount of time an individual intends to spend on a grant and that estimate is used to routinely charge the grant for the estimated percentage of the individual's pay. In addition, EMC established a control to ensure the estimates do not exceed the actual time charged to the grant by having all individuals working on grants submit time and effort reports to the grants accountant. The time and effort reports provide the actual percent of an individual's time devoted to various grants. The accountant is to review the time and effort reports and adjust the amount charged to the grants to reflect actual hours spent.

We found the grants accountant did not follow established procedures. We noted two instances where the grants accountant returned the time and effort reports to personnel with instructions to modify the report to agree with the percentage charged on the accounting system. Although we did not find instances where grants were overcharged as a result of this issue, the potential exists for grants to be charged for services not rendered.

Establishing and maintaining compliance with control procedures is management's responsibility. Periodic supervisory reviews of the work could have prevented the failure to follow established procedures.

Recommendation #B2-1

We recommend the college implement supervisory review procedures to ensure grants personnel follow established reporting procedures.

Response #B2-1

Supervisory review procedures have been implemented. The grants and contracts accountant has been given time limits on receipt of or disagreements with Time and Effort Reports. The accountant is required to discuss all unresolved matters with her supervisor.

Montana College of Mineral Science and Technology

Compliance with Federal Regulations

The Montana College of Mineral Science and Technology (college) receives funds from federal, state, and private sources for research, instruction, or other projects conducted by the college. The college's Bureau of Mines and Geology oversees projects sponsored by grants or governed by contracts. Total expenditures from grant and contract sources were \$1,583,970 and \$1,488,663 for fiscal years 1988-89 and 1989-90, respectively. Of these amounts, expenditures charged to federal grant projects totaled \$847,849 in fiscal year 1988-89 and \$805,644 in fiscal year 1989-90. The college received approximately 90 percent of its grants from the following federal agencies under the noted federal catalog numbers during the audit period: Department of Interior (CFDA #15.221, 15.308, 15.502, and 15.803), Environmental Protection Agency (CFDA #66.419 and 66.423), National Science Foundation (CFDA #47.604 and 47.066), and Department of Labor (CFDA #17.500). During the audit we noted the following areas where the college should improve procedures to comply with federal regulations.

B3-1 Personal Service Charge to Grants

The college uses time and effort reports to document the extent of time employees work on specific projects. The time and effort reports are after the fact reports in which the employee certifies the time spent on a particular grant. However, these reports are not used by the college to determine charges to the grants. Office of Management and Budget (OMB) Circular A-21, requires direct cost records to reflect time spent on each individual grant. Payroll charges are limited to time actually spent on a particular grant. The regulations also require the reports be certified by the employee and the principal investigator or other responsible official, using suitable means to verify work was performed.

During the audit we reviewed the college's procedures for recording time spent on grants and the related charge to the grants. We reviewed 82 time and effort reports for fiscal year 1989-90 and noted 12 reports did not support personal service charges to federal grants. For example, during July 1989, an employee certified 5 percent of his time was spent on a federal grant but the grant was charged 75 percent of the employee's

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salary. This resulted in an overcharge to the grant of \$1,086. We determined unsupported personal service charges to federal grants ranged from \$137 to \$4,973 during fiscal year 1989-90. Total unsupported charges during this period were \$7,259 all of which were billed to the Environmental Protection Agency (\$6,907 to CFDA #66.419 and \$352 to CFDA #66.423); therefore, we question the allowability of these charges. The college should have procedures to ensure the time and effort reports support charges to grants.

Recommendation #B3-1

We recommend the college ensure federal grant expenditures are properly supported by time and effort reports in accordance with federal regulations.

Response #B3-1

Concur. Corrective action has been taken to insure that time and effort reports are in accordance with federal regulations.

B3-2 Personal Services Charged in Excess of Base Rate

The college authorizes additional compensation to employees when job duties exceed those outlined in the employee's contract. During fiscal year 1988-89, additional compensation provided to an employee was charged against a federal grant at a rate higher than the employee's base contract salary. The employee was paid a lump sum of \$200 per month in addition to his contract salary for the first four months of the fiscal year. The college's payroll system does not document hours actually worked on the grant to support these payments. The college then changed procedures and paid the additional compensation based upon actual hours worked. The employee's base rate was \$12.36 per hour; however, the federal grant was charged \$13.51 per hour. Federal regulations, OMB Circular A-21, allow for additional compensation for work performed on sponsored agreements at the base salary rate, but prohibits exceeding this rate, unless approved in writing by the sponsoring agency. The college did not obtain written approval for the additional com-

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pensation from the subgrantor, the Montana Department of Health and Environmental Sciences. This resulted in an overcharge to a federal grant from the Environmental Protection Agency (CFDA #66.419) of \$1,550 during fiscal year 1988-89; therefore, we question the allowability of these charges. College officials believe the additional compensation charges were reasonable. During fiscal year 1989-90, the college changed its procedures for paying additional compensation to comply with federal regulations.

Recommendation #B3-2

We recommend the college charge additional compensation in accordance with federal regulations.

Response #B3-2

Concur. As noted in the audit report, the procedures were changed in fiscal year 1989-90 to comply with federal regulations. In the future, any additional compensation requests will be approved by the contracting agency prior to payment of additional compensation.

B3-3 Overcharge of Leave Benefits

Grant provisions allow benefit charges, such as annual and sick leave, when employees work on the grant. We reviewed the college's procedures for charging leave benefits to grants and determined procedures used resulted in duplicate charges to the individual grants. When leave is earned, a percentage of benefits is charged to each grant. The college pools and retains these funds for future payments for leave earned by the employees. In addition, when the employee uses leave benefits during a specific month, the college charges the leave to the grant the employee worked on during the time leave was taken, not to the grant in which the leave benefits were earned or the pool. Federal regulations, OMB Circular A-21, allow leave benefit charges to the extent earned on the grant.

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During our review we noted three instances where leave was charged to the grant when earned and again when taken by the employee. This resulted in an overcharge of leave benefits to federal and state grants reviewed of \$1,645, which includes federal grant overcharges to the Environmental Protection Agency (CFDA #66.423) of \$49 and the Department of Interior (CFDA #15.221) of \$70; therefore, we question the allowability of these charges. The remaining \$1,526 in overcharges involved state grants.

Recommendation #B3-3

We recommend the college establish procedures to charge leave benefits in accordance with federal regulations.

Response #B3-3

Concur. Procedures were implemented as of July 1, 1990 to charge sick and vacation benefits to the proper account, thus eliminating duplication of charges to pertinent accounts. This recommendation will also be addressed as a University System issue.

B3-4 Fixed Asset Records

The college uses the state's Property Accountability Management System (PAMS) to manage and account for its fixed assets. The college recorded fixed assets of \$37,525,547 on the state's accounting records at June 30, 1990, which included \$8,922,247 of equipment.

During the audit, we noted the college does not identify on PAMS equipment purchased either in part or in whole with federal funds. Federal regulations, OMB Circular A-110 (Attachment N), require that the property records identify equipment purchased, in part or in whole, with federal funds. The property records should also identify the source of the property including the grant or other agreement number and the percent of federal participation in the equipment's cost. If the

required information is maintained, federal regulations allow state agencies to include equipment purchased with nonfederal funds or funds not used to match a federal grant in its indirect cost calculation. Since the college does not identify equipment purchased with federal participation on its accounting records, equipment charges are not allowable as a part of the college's indirect cost calculation. This could result in less indirect costs being recovered by the college.

College officials stated they could identify equipment purchased with federal funds during recent years by using the accounting records, but they could not identify the funding source for equipment purchased in prior years. During fiscal year 1990-91, the college began identifying equipment purchased with direct federal funds on the property records; however, the match used for federal grants is still not properly identified.

In addition, the college has not completed a physical inventory count since June 1988. Federal regulations and state policy require an inventory of equipment and reconciliation of count results to the property records at a minimum of every two years. College personnel stated the college requested each department to perform a count of inventory items during May 1989 and 1990, but did not have sufficient personnel to determine if the inventory count results were complete and agreed to the property records. The college should complete an inventory count of fixed assets at least every two years to ensure its property records are complete and accurate.

Montana College of Mineral Science and Technology

Recommendation #B3-4

We recommend the college:

- A. Identify equipment purchased, in part or in whole, with federal funds on the property records in accordance with federal regulations.
- B. Conduct a physical inventory of fixed assets in accordance with federal regulations and state policy.

Response #B3-4

- A. Concur. A plan has been implemented and records have been searched back to July 1, 1984 to determine equipment purchased with federal funds. The equipment will be separately identified in the PAMS system.
- B. Concur. A plan for corrective action has been developed. A timetable is in the process of being developed and will be implemented by FYE.

B3-5 Accounting for Grant Match

The college is a recipient of several federal grants which require a state or private match to the grant. The college maintains a system to track personal service expenditures used to match specific federal grants; however, the match for operating expenditures and equipment purchases are not separately identified as expenditures for the grant matched. Federal regulations, OMB Circular A-110 (Attachment F), state, "Recipients' financial management systems shall provide for accurate, current, and complete disclosure of financial results of each federally sponsored project or program."

We reviewed two federal grants which require an expenditure match with state or private funds and determined the college could not specifically identify which expenditures were used to match a particular federal grant. The grants reviewed were from the National Science Foundation (CFDA #47.999) with total match of \$55,628 not separately identified on the accounting

records. College officials stated they were not aware of the federal regulation. Without the accounting records separately identifying expenditures used to match a specific federal grant, the opportunity for use of the same expenditures to match separate federal grants exists.

Recommendation #B3-5

We recommend the college separately identify operating and equipment expenditures used to match federal grants on the accounting records in accordance with federal regulations.

Response #B3-5

Concur. Appropriate responsibility centers will be set up to separately track matching dollars on matching grants.

Western Montana College

B4-1 Perkins Loans

In June 1990, the college converted the Perkins loan (CFDA #84.038) receivables from its accounting system to the University Accounting Services (UAS) accounting system. The loan receivables on the UAS system should agree with the balance reported on SBAS. At June 30, 1990, UAS's subsidiary detail ledger reported \$475,294 in loan balances while SBAS reported \$492,213. The college identified part of the difference as \$20,912 in loans assigned to the federal government which are no longer receivables of the college. Loans assigned to the federal government should be removed from the accounting records thereby reducing the outstanding balance. The college should have adjusted the assigned loans on SBAS prior to June 30, 1990. As a result, the SBAS amount is overstated by \$20,912.

The remaining difference results from the college incorrectly accounting for loans turned over to a private agency for collection. When the loan is collected, the student is assessed a 50 percent penalty. The college incorrectly reduces the loan receivable for the outstanding balance plus the penalty amount, resulting in a negative receivable balance. For example, we selected a sample of individual Perkins loans receivable at June 30, 1990 to confirm the balances with the students. College records indicated one student in our sample had a negative balance of \$972. Further investigation disclosed the loan had been repaid in full, plus penalty, more than three years prior to our confirmation.

The negative balances understate the Perkins loans receivable amount. Due in part to the conversion to the UAS subsidiary system, college officials could not readily identify all negative balances. Based on our audit work, we do not consider the negative balances to have a material impact on the financial statements of the college. However, these errors resulted in the college reporting incorrect amounts on federal reports to the U.S. Department of Education.

In order to properly account for Perkins loans receivable, college officials should periodically compare the subsidiary detail

records to SBAS. Any differences should be reconciled and the records adjusted accordingly. Penalty amounts should be recorded as revenue. Loans accepted for assignment by the federal government should be removed from the outstanding principal balance and reclassified on SBAS as loans cancelled.

Recommendation #B4-1

We recommend the college:

- A. Periodically reconcile the subsidiary detail records to SBAS and record adjustments accordingly.**
- B. Record penalty amounts received as revenue.**
- C. Adjust SBAS amounts for loans assigned to the federal government.**

Response #B4-1

- A. THE COLLEGE CONCURS WITH THE RECOMMENDATION.** Fiscal Year 1990 has been reconciled and appropriate entries have been completed. Reconciliations for Fiscal Year 1991 and 1992 will be completed by May 15, 1992. All applicable entries will be reflected in our 1992 Fiscal Year-End records. A corrected Fiscal Year 1991 FISAP report will be issued by May 15, 1992, based on the above reconciliation.
- B. THE COLLEGE CONCURS WITH THE RECOMMENDATION.** Errors in recording penalty amounts have been rectified for all accounts with a negative accounts receivable balance. The Financial Aid staff is analyzing all other accounts to determine if additional misclassification errors exist. All misclassifications will be identified and entries completed by May 15, 1992.
- C. THE COLLEGE CONCURS WITH THE RECOMMENDATION.** SBAS records have been adjusted for loans assigned to the federal government. Procedures have been

developed and implemented to ensure all assigned loans are properly recorded.

Federal Assistance

The college receives federal assistance from the U.S. Department of Education for the following student aid programs: Pell grants (CFDA #84.063), Perkins loans (CFDA #84.038), Supplemental Education Opportunity Grants [SEOG] (CFDA #84.007), State Student Incentive Grant [SSIG] (CFDA #84.069), College Work Study (CFDA #84.033) and Stafford loans (#84.032). During our review of the student financial aid programs, we noted several instances where the college can improve its compliance with federal regulations. These concerns are discussed in the following report sections.

B4-2 FISAP Reporting

As noted previously, the Perkins loan amount reported on SBAS is incorrect. As a result, amounts reported for Perkins loans on the Fiscal Operations Report/Application (FISAP) are also incorrect. Federal regulations require the FISAP report to accurately reflect the financial activity of the financial aid programs. The following schedule outlines the errors reported in the 1989-90 FISAP report.

<u>Page</u>	<u>Line</u>	<u>Description</u>	<u>Amount Reported</u>	<u>Correct Amount</u>
23	5.0	Loan Principal Collected	\$1,424,309	*
23	5.1	Default Principal Assigned	131,543	\$152,455
23	19.1	Collection Costs	24,831	28,592**
27	2	Default Assigned	131,543	152,455

*Unable to determine

**Unable to determine, but at least this amount.

The college submitted an updated FISAP to the Department of Education in February 1991 for the errors related to the default principal assigned and the default assigned. However, the errors related to Loan Principal Collected and Collection Costs remain unresolved.

Recommendation #B4-2

We recommend the college:

- A. Implement procedures to ensure SBAS accurately reflects the financial activity for Perkins loans at fiscal year-end.**
- B. Prepare the FISAP report based on accurate financial information.**

Response #B4-2

- A. THE COLLEGE CONCURS WITH THE RECOMMENDATION.** Procedures have been developed but not yet fully implemented. The procedures will be revised by May 15, 1992, to insure SBAS accurately reflects Perkins loan activity by Fiscal Year-End.
- B. THE COLLEGE CONCURS WITH THE RECOMMENDATION.** In February 1991, we corrected the FISAP report in question and resubmitted the report to the Department of Education. Full implementation of the reconciliation procedures by Fiscal Year-End will insure accurate financial data in our FISAP report.

B4-3 Monitoring Satisfactory Progress

Federal regulations require a student to maintain satisfactory academic progress toward a degree objective in order to be eligible for federal student financial aid. The satisfactory progress guidelines represent a minimum standard determined by the college. At the college a student must receive a minimum grade of D or P (pass) and complete the minimum credits for which they are funded.

In one file out of four student aid files examined a student had not maintained satisfactory progress during her academic career. Therefore, the student was not eligible to receive financial aid. The student continued to receive financial aid from fall semester

1988 through spring semester 1990. Because of this error, we question the amount of aid given to this ineligible student from the following programs:

Satisfactory Progress Questioned Costs

<u>Federal Program & Catalog Number</u>	<u>Amount</u>
Pell (CFDA #84.063)	\$4,080
SEOG (CFDA #84.007)	600
Perkins (CFDA #84.038)	1,200
Stafford/GSL (CFDA #84.032)	<u>3,383</u>
Total	<u>\$9,263</u>

Source: Prepared by the Office of the Legislative Auditor
from college records

The college should monitor each student's progress and discontinue financial aid when the student fails to maintain satisfactory progress toward a degree objective.

Recommendation #B4-3

We recommend the college comply with federal regulations requiring students to maintain satisfactory progress in order to receive financial aid.

Response #B4-3

THE COLLEGE CONCURS WITH THE RECOMMENDATION, BUT DOES NOT CONCUR WITH THE SPECIFIC CASE CITED IN THIS REPORT. We agree students receiving federal financial aid will be monitored for satisfactory progress. We also believe our current satisfactory progress policy insures compliance. In the specific case cited the Financial Aid Director used professional judgment, as allowed by federal regulations, to allow for an exception of the satisfactory progress requirement.

Current policies have been modified to create a committee which reviews exceptions to existing policies. This committee allows for greater documentation and a broader based decision when exceptions are granted.

It should be noted that the audit report states the College requires a minimum GPA of D or better. In fact, our policy has always required a minimum of a C or better.

B4-4 Promissory Notes

During our review of the Perkins loan receivables, we examined the promissory notes for a student receiving Perkins loans of \$500. Federal regulations require the student to sign the promissory note upon receiving any funds. In this instance the student did not sign the promissory note indicating he received \$200. Without the signature, the college only has documentation of the student owing \$300 while the accounting records show the student owes \$500. This loan occurred in 1984 and college officials were unsure why the student had not signed the note as required by federal regulations. The student is in default on his loan repayment. As of June 30, 1990 his principal balance outstanding was \$225.

Recommendation #B4-4

We recommend the college ensure students sign the promissory notes for financial aid as required by federal regulations.

Response #B4-4

THE COLLEGE CONCURS WITH THE RECOMMENDATION. We do secure the necessary signatures on all promissory notes. The single unsigned note found during the audit has since been signed. Our Financial Aid procedures have been modified to include a secondary review of documents prior to the disbursement of funds.

**B4-5 Eligibility
Documentation**

Federal regulations require students to certify that they have registered with the selective service, if applicable, and sign a statement of educational purpose in order to be eligible for student financial aid.

We noted eight instances where the student file did not document the student signed the form which certifies compliance with the requirements for registration with selective service and the statement of educational purpose. Also, there was no documentation to indicate that financial aid personnel had noticed that the students had not signed the form or had made an attempt to have the form signed. College personnel stated the former financial aid director overlooked the fact that the certification form had to be signed. Because the student's file did not document the eligibility requirements to receive federal financial aid, we question the following student aid amounts:

Selective Service/Statement of
Educational Purpose Questioned Costs

<u>Federal Program & Catalog Number</u>	<u>Amount</u>
Pell (CFDA #84.063)	\$10,950
College Work/Study (CFDA #84.033)	1,000
Stafford Loan (CFDA #84.032)	<u>16,317</u>
Total	<u>\$28,267</u>

Source: Prepared by the Office of the Legislative Auditor
from college records

Recommendation #B4-5

We recommend the college document the student has complied with the requirements of Selective Service and submitted a signed statement of educational purpose.

Response #B4-5

THE COLLEGE CONCURS WITH THE RECOMMENDATION. The Financial Aid Award Letters now include the appropriate statements, as do the Student Aid Reports.

B4-6 Safeguarding Records

We noted the college keeps the Perkins loan promissory notes in the student aid files. The student aid files are kept in an unlocked file cabinet which may be accessed by all personnel in the financial aid and registrar's office. The promissory note documents the student's obligation to pay back the loan. If the notes are lost or stolen, there is no record of the student's obligation to repay. Since the loan obligation remains long after the student aid files become inactive, federal regulations require an institution to keep the original promissory notes and repayment schedules in a locked, fireproof area. Federal regulations also state "Only authorized personnel may have access to the loan documents." College personnel stated they had not considered the problems with having the promissory notes in the student aid files.

Recommendation #B4-6

We recommend the college file the Perkins loan promissory notes separate from student aid files in a locked, fireproof area.

Response #B4-6

THE COLLEGE CONCURS WITH THE RECOMMENDATION. We have implemented this recommendation.

Northern Montana College

Carl D. Perkins Grants

B5-1 Carl D. Perkins Matching Requirements

Federal regulations contained in OMB Circular A-110 (Attachment F), state "recipients' financial management systems shall provide accurate, current, and complete disclosure of financial results of each federally sponsored project or program." Four of the six Carl D. Perkins Grants (CFDA #84.048) received by the college during fiscal years 1989-90 and 1990-91 required matching funds totalling \$80,763 and \$43,927, respectively.

The college did not specifically identify on the state's accounting records which expenditures were used to match a particular federal grant because the accounting records were not set up to separately identify matching expenditures. In addition, we determined the college did not meet the required match for the Diesel Tech grant. Without the accounting records separately identifying expenditures used as match, the potential exists for the college to use the same expenditure as match on more than one grant. The potential also exists for the college to recover the same expenditure through both direct and indirect charges.

Because the college did not identify on the accounting records expenditures used to meet the matching requirements or did not meet the matching requirements, we question the following amounts of federal funds.

Questioned Costs - Carl D. Perkins Grants (CFDA #84.048)

<u>Grant Program</u>	<u>Fiscal Year</u> <u>1989-90</u>	<u>Fiscal Year</u> <u>1990-91</u>
Vo-Ed Research	\$147,022	
Diesel Tech	1,584	
Peer Counseling	26,892	\$41,932
Career Choices		17,245

Source: Compiled by the Office of the Legislative Auditor from Northern Montana College records.

Recommendation #B5-1

We recommend the college establish procedures to separately identify expenditures used to match federal grants on the accounting records in accordance with federal regulations.

Response #B5-1

Concur. In the summer of 1991, Northern Montana College began establishing separate responsibility centers to more clearly identify and document expenditures representing match for each federal grant. We are committed to both honoring our federal grant match requirements as well as providing clear documentation of our match.

B5-2 Administrative Controls

NMC personnel are responsible for establishing procedures to ensure the charges made to federal assistance programs are allowable under federal requirements. Such procedures normally include review and approval of charges by personnel who are responsible for the program and familiar with federal requirements.

According to NMC's procedures, the business office receives all the college's bills. If a bill is under \$200 and is from another campus organization, the business office pays the bill without approval and gives a copy to the program director. Otherwise the business office obtains approval from program personnel administering the grant. The approval given to the business office may be verbal and may be from someone other than the program director. Thus, the person approving the payment may be someone unfamiliar with federal regulations concerning costs allowable under the grant.

We noted the college charged entertainment expenses of \$394 to the Native American Peer Counselors grant (CFDA #84.048) in fiscal year 1989-90. Office of Management and Budget (OMB) Circular A-21, cost principles for educational institutions, states entertainment expenses are not allowable charges to a grant.

Officials explained the costs were for banquets to recognize the achievements of the students participating in the program as specified in the grant proposal. The college also charged athletic and recreation expenses of \$77 and \$594 to the program in fiscal years 1989-90 and 1990-91, respectively. Officials explained these charges were to promote a sense of identity of the students enrolled in the program, which is one of the purposes of the grant. However, such expenditures are not allowable charges to Carl D. Perkins grants if the expenditures were for services provided to someone not enrolled in the program, such as spouses or other family members. We were not able to determine if the expenditures benefited individuals not enrolled in the program.

We do not specifically question the expenditures noted above because we have already questioned them in the report section on matching requirements (issue B5-1). However, the college should establish procedures to ensure expenditures are allowable according to federal requirements, particularly for transactions less than \$200. The college could improve procedures by establishing and documenting responsibility for approving charges made to federal assistance programs.

Recommendation #B5-2

We recommend the college:

- A. Establish and document responsibility for approving charges to federal programs.**
- B. Ensure employees approving charges to federal programs are familiar with regulations regarding which costs are allowable to the programs.**

Response #B5-2

- A. Concur. Federal grant administration policies are currently being drafted to provide both communication and documentation of grant related responsibilities including the approval of grant expenditures.**

- B. Concur. Northern Montana College will strive to inform grant project directors of the federal regulations governing the allowability of expenditures charged to federal grants. We are committed to full compliance with all federal requirements.

Student Financial Aid

B5-3 Student Status Confirmation Reports

Federal regulations require the college to notify a lender or guarantee agency whenever a student who received a Stafford Loan (CFDA #84.032) graduates, withdraws, or becomes enrolled less than half-time. Under federal regulations, students meeting these categories may have to begin repaying their loans. The college's notification enables the lenders to place the loans in repayment status. NMC reports the changes to the guarantee agency twice a year on a Student Status Confirmation Report (SCR). The SCR lists all students receiving a loan and their latest enrollment status. It is NMC's responsibility to make the necessary changes to the SCR and return it to the guarantee agency within 30 days.

On the SCR dated March 31, 1991, we found the enrollment status recorded on the report did not agree with criteria established by the college for two of twenty-five students tested. A graduate student taking three credits and an undergraduate student taking three credits were identified on the SCR as half-time students. According to NMC's catalog, an undergraduate student enrolled for less than six credits is defined as less than half-time. A graduate student enrolled for less than five credits is defined as less than half-time. Therefore, the college should have classified the two students as less than half-time.

The Financial Aid Office said they consider graduate students to be enrolled half-time if the student is enrolled for three credits. However, federal requirements state a graduate student's enrollment status is determined by the institution according to its own standards. Therefore the enrollment status would be determined according to the college's catalog. College personnel cited human error as the cause for the undergraduate error. In both

cases, the guarantee agency was not notified in accordance with federal regulations.

Recommendation #B5-3

We recommend the college improve procedures to ensure the guarantee agency is notified of student enrollment status changes in accordance with federal regulations.

Response #B5-3

Concur. Procedures have been enacted to ensure that the guarantee agency is notified of student enrollment status changes in accordance with federal regulations. These procedures include electronic transmission and computer processing of the Student Confirmation Reports in an effort to eliminate human error from this process.

B5-4 Exit Conferences

Federal regulations direct the college to provide exit counseling for borrowers to inform them of their obligations to repay Perkins (CFDA #84.038) and Stafford (CFDA #84.032) loans. Federal guidelines state that if the college discovers a student borrower has left without an exit interview, the college must contact the borrower and provide the necessary exit information. We reviewed the files of five students who withdrew from NMC during the audit period. NMC did not hold an exit conference with two of these students.

The Student Financial Aid Office compares the previous quarter enrollment to the current quarter enrollment after the third week to determine if a student withdrew between quarters. Financial Aid Office personnel said they overlooked one of the students and had not performed the comparison for the other student because of staff turnover. We determined the college could improve procedures to ensure that errors such as these are eventually detected and, as a result, comply with the federal requirement.

Recommendation #B5-4

We recommend the college improve procedures to ensure required exit interviews are held in accordance with federal regulations.

Response #B5-4

Concur. The Financial Aid Office has developed an electronic master student loan participation file which will be maintained in order to track students as they pursue their educational goals. When a student participates in a loan program, a master record will be created. When students exit school, they will be compared to this file and consequently identified as a loan recipient and exit interviewed in accordance with federal regulations.

University of Montana

B6-1 Prior Audit Recommendations

In our prior audit, for the two fiscal years ended June 30, 1989, we made 15 individual recommendations to the University of Montana. The university implemented 11, partially implemented 2 and did not implement 2. It concurred with 13 of the recommendations and did not concur with 2.

One of the prior audit recommendations implemented concerns establishing additional procedures to ensure indirect costs are charged according to program guidelines. In the current audit, we found one instance where a United States Department of Agriculture project (CFDA #10.001) was overcharged \$105 for indirect costs. Since the grant had been closed, we question the allowability of these costs for federal reimbursement.

Compliance with Federal Regulations

The university receives both major and nonmajor federal financial assistance from several federal departments. These include the U.S. Departments of Education, Health and Human Services, Agriculture, and Interior; the National Science Foundation; the National Foundation of Arts and Humanities; and various other federal agencies. During fiscal year 1990-91 the university spent approximately \$10 million relating to federal grants and contracts. We performed tests to determine the university's compliance with selected federal regulations. We identified the following areas where the university should improve procedures to comply with federal regulations.

B6-2 Overcharge of Leave Benefits

Federal grant regulations allow fringe benefits in the form of regular compensation, such as annual leave and sick leave, to be paid to employees working on grants provided the costs are distributed to all institutional activities in proportion to the relative amount of time or effort actually devoted by the employee. We reviewed the university's procedures for charging sick and annual leave benefits to grants and determined the procedures used can result in overcharges to the individual grants.

The university charges grant and contract projects for actual time worked on the project and an additional percentage of

salaries for leave time earned by employees while they worked on grant projects. In addition, when an employee uses leave benefits during a specific month while working on a grant project, the university charges the actual leave taken to the grant project the employee worked on during the time the leave was taken. Under the current method, the university can overcharge grants since it charges leave directly to the grant when it is earned and again when it is taken, and employees may work on several grants or other university positions over a period of time. An employee may work on a grant for a year, earn vacation leave, but not take any of the leave. This employee may then work on another grant project and take two weeks of vacation leave. Under the current system, the university would charge all of the vacation leave taken to the second grant, thereby overcharging the second grant. We noted the university charged a rural rehabilitation grant project (U.S. Department of Education, CFDA #84.133B) \$8,172 for one employee's leave benefits. However, the employee only earned \$5,225 of leave benefits while working on the grant. As a result, we question the allowability of \$2,947 charged to the grant. Because of the university's procedures, the university could overcharge for leave benefits on other grants.

University personnel became aware of leave benefit concerns during a college and university controller's meeting. University personnel believe this is a university system-wide concern and all the units need to work with the Commissioner of Higher Education's Office to resolve the problem.

Recommendation #B6-2

We recommend the university establish procedures to charge leave benefits to grant projects in accordance with federal regulations.

Response #B6-2

The university concurs with the recommendation. We are reviewing our current procedures and will make the necessary

changes to ensure appropriate leave benefits expenditures. This will be done in coordination with other Montana University System units to maintain consistency. We anticipate these procedures will be implemented by 7/1/93.

B6-3 Property Records

The university uses the state's Property Accountability Management System (PAMS) to manage and account for its fixed assets. The university recorded total equipment of \$17,928,283 on PAMS at June 30, 1991. Federal regulations, OMB Circular A-110 (Attachment N), require the property records identify equipment purchased, in part or in whole, with federal funds. If the required property records are maintained, federal regulations allow universities to include equipment purchased with non-federal funds or funds not used to match a federal grant in its indirect cost calculation.

During the audit, we noted the university does not identify on PAMS equipment purchased with state funds used as match on federal grant programs. Currently, the university identifies property on its records based on the funding source. If federal funds paid for the equipment, the university identifies the equipment as being purchased with federal funds. When it prepares its indirect cost proposal, the university reduces the total property included in the proposal by the amount of equipment identified as being purchased with federal funds. However, since any property purchased as a match on a federal grant is recorded as university property, the university does not exclude the equipment used as match from its indirect cost proposal. If the university eliminates the property purchased as match on a federal grant from its indirect cost proposal, it would recover less indirect costs. However, because the university does not identify all of its equipment purchased for a federal grant on its accounting records, equipment charges may not be allowable as part of the university's indirect cost calculation. If all equipment was excluded from the indirect cost calculation, the university would recover even less indirect costs.

One example of matching equipment being recorded as university property occurred on a National Science Foundation grant (Data Acquisition & Management System, CFDA #47.099). The

university purchased \$4,746 worth of computer equipment as a match on the grant and included this equipment in its indirect cost pool. However, equipment charged as match and as a direct project cost cannot also be used as an indirect cost. University personnel indicated they had not interpreted the federal regulation as requiring it to identify, and therefore exclude, equipment used as match on a federal grant. Personnel further indicated that few of its federal grants are matched with equipment.

Recommendation #B6-3

We recommend the university:

- A. Identify equipment purchased as match for a federal grant on the property records in accordance with federal regulations.**
- B. Exclude equipment costs used as match from its indirect cost rate calculation.**

Response #B6-3

- A. The university concurs with the recommendation. Procedures will be implemented to identify and report equipment purchased as match on federal grants as federal equipment. The new procedures will be implemented 7/1/92.**
- B. The university concurs with the recommendation. Once the above mentioned procedures are implemented, equipment used as match will be excluded when developing our indirect cost proposal. Matching equipment will be excluded when we submit our next indirect cost proposal on 12/31/92.**

**B6-4 Accounting for
Grant Match**

Federal regulations, OMB Circular A-110 (Attachment F), state, "Recipients' financial management systems shall provide for accurate, current, and complete disclosure of financial results of each federally sponsored project or program." Some of the university's grant projects require the state to match the federal expenditures. The university maintains a system to track personal service expenditures used to match specific federal grants; however, it does not maintain a system to clearly identify operating expenditures and equipment purchases as expenditures used for the grant match. Without the accounting records clearly identifying expenditures used to match specific grants, the potential exists for the same expenditures to be used as match on more than one grant.

As discussed in the previous report section, the university purchased \$4,746 of computer equipment as match on the National Science Foundation grant (Data Acquisition and Management System, CFDA #47.099). We determined the university did not separately identify the \$4,746 expenditure used to match the grant on the state's accounting system; therefore, the university could not document the expenditure was not used as match for more than one grant. As a result, we question the allowability of \$4,746 used as match on the grant. University personnel stated they have very few grants that require a match of operating expenditures or equipment purchases and, therefore, did not set up a separate system on the Statewide Budgeting and Accounting System (SBAS) to track expenditures on their accounting records.

Recommendation #B6-4

We recommend the university separately identify operating and equipment expenditures used to match federal grants on the accounting records in accordance with federal regulations.

Response #B6-4

The university concurs with the recommendation. Procedures will be implemented to identify separately and clearly the operating and equipment expenditures used as match. These procedures will be implemented 7/1/92.

B6-5 Untimely Billing and Reporting for Grant Projects

As discussed earlier, the university receives its federal assistance from several federal agencies. It also receives state, local and private funds for grants. The university obtains moneys through letters of credit, receipt by U.S. Treasury check and direct billings to state, local, and private agencies. During our audit, we tested eight grants for timely billings and found four grants were not billed in a timely manner during the audit period. The university processed billings for these grants anywhere from 11 to 229 days past the scheduled billing dates. The following table identifies the grants with untimely billings.

Grants with Untimely Billings

<u>Granting Agency</u>	<u>Federal CFDA Number</u>	<u>Name</u>
USDA	10.001	Pedigree Analysis in Brassica
USDI	15.999	Wolf Ecology Project/Glacier Nat'l
State of Montana	None	Bio Tech Ctr for Excellence
Energy - INEL	81.999	Contaminants Honey Bees EG&G

Grants requiring billing generally operate on a cost-reimbursement basis. Untimely billings result in the university needing loans since state funds must support grant activities longer than necessary. The average short-term investment pool yield for fiscal year 1990-91 was 7.6 percent. Applying this yield rate to the late billings, we estimate the state lost as much as \$2,220 of interest as a result of late billings on the above four grants. In addition, at June 30, 1990 and 1991, the university had \$900,000 and \$600,000, respectively, of loans to cover negative cash balances in its federal and state grant accounts. If the university had billed grantors on a timely basis, it should have been able to reduce the amount of loans needed.

In addition to untimely billings, we also tested 12 grants for timely reporting and found seven instances where the university did not submit required reports to the grantor on time. The university processed reports for these grants anywhere from 6 to 177 days past the scheduled reporting dates. The following table identifies the grants with untimely reporting.

<u>Grants with Untimely Reports</u>		
<u>Granting Agency</u>	<u>Federal CFDA Number</u>	<u>Name</u>
HHS	13.632	MUAPS Core Grant 1989-90
USDA	10.001	Pedigree Analysis in Brassica
Education	84.024	Education Home Mod Pro Yr. 3
Education	84.133	Rural Rehabilitation Serv. Yr. 3
USDI	15.999	Wolf Ecology Project/Glacier Nat'l
State of Montana	None	MSTA Financing Agreement
State of Montana	None	Bio Tech Ctr of Excellence

Granting agencies require either monthly, quarterly, annual or end of grant final financial reports detailing the expenditures of the grant. The financial report is an important management tool used by granting agencies to monitor grant progress. This is particularly true of granting agencies which permit letter of credit drawdowns or advances of grant funds.

In our prior audit report we included a recommendation for the university to bill grantor agencies on a timely basis. The university made an effort during this audit period to improve the timeliness of billings. The Controller's Office implemented a new grant billing system in March 1991 and emphasized the need for more timely bills and reports to meet the grant reporting and billing requirements. The university also plans to create a tickler file to generate a monthly report listing grants needing either a bill or report prepared.

Recommendation #B6-5

We recommend the university continue its efforts to ensure grantor agencies are billed and grant reports are submitted on a timely basis.

Response #B6-5

The university concurs with the recommendation. Major improvements have been made in this area during the last three years. We will continue our efforts to ensure timely billing and reporting. Once we have completed our transition to the automated grant billing system and implemented the computerized tickler system, we will further improve our ability to report and bill in a timely manner. We should be utilizing our new system by 7/1/93.

B6-6 Timeliness of Stafford Loan Reporting

The Stafford Loan Program (CFDA #84.032) requires postsecondary educational institutions who issue student Stafford Loans to notify lenders whenever students graduate, withdraw, or cease to be enrolled at least half-time. This notification enables the lenders to place the loans in repayment status. The university reports the changes to a central processing center on a Student Confirmation Report (SCR). The SCR lists all students receiving a loan and their latest enrollment status. After university personnel send the SCR to the central processing company, the company uses the information to notify applicable lenders. Federal regulations require the university to return the SCR report to the central processing company within 30 days.

From winter 1990 to spring quarter 1991, the university failed to return the SCR reports within the required 30-day period for five of six academic quarters. The following table discloses how late the reports were.

Untimely SCR Reporting

<u>Quarter</u>	Number of	
	<u>Days</u>	<u>Late</u>
Winter 1990	24	
Spring 1990	39	
Autumn 1990	41	
Winter 1991	57	
Spring 1991	54	

University personnel stated one reason the reports were late relates to the time financial aid office staff devoted to the conversion to a new financial aid computer system. When the computer conversion is complete, university personnel believe they will have more staff time to complete the report. Personnel also stated under the current quarter system, the reports were due during the same time financial aid checks were distributed to students. Personnel believe the semester system will allow for more lead time to prepare the reports. The university will convert to the semester system effective Fall 1992.

Recommendation #B6-6

We recommend the university establish procedures to ensure the student status confirmation reports are submitted to the central processing center on a timely basis.

Response #B6-6

The university concurs with the recommendation. When the new financial aid system was implemented, control features for student confirmation reporting were not functioning properly. The software has been corrected and on 3/6/92 we implemented procedures to ensure confirmation reports are submitted in a timely manner.

Payroll

The university processed approximately \$50 million of personal service expenditures in fiscal year 1990-91. Our audit identified areas where we believe the university should improve controls over the payroll system. The control weaknesses noted affect controls over the university's federal funds.

B6-7 Calculation of Deductions

The Internal Revenue Service (IRS) publishes federal income tax withholding schedules for each calendar year. The university is required to update deduction information on its computer system for the changes in tax deductions. This allows the computer to properly calculate deductions from employees' gross pay.

During our audit we sampled payroll items to ensure the university's computer system properly calculated deductions according to the federal rates. For calendar years 1990 and 1991, the university did not properly update its computer system for new IRS withholding tables. University personnel stated a portion of the IRS withholding table was overlooked when the computer was updated at the beginning of each calendar year. Payroll personnel did not check the accuracy of the federal withholding calculation after the withholding tables were updated on the computer system. IRS regulations require taxes withheld from employees' checks be made in accordance with the correct withholding tables.

As a result of the error, any university employees who claimed one or more withholding allowances for federal tax purposes had more taxes withheld from each paycheck than was required by federal law for calendar year 1990 and through May 1991. As a result of our audit work, university personnel corrected the withholding table information on the computer system. Therefore, beginning in June 1991 the university used the correct withholding table to calculate payroll deductions.

Recommendation #B6-7

We recommend the university establish procedures to ensure payroll system changes are complete.

Response #B6-7

The university concurs with the recommendation. Procedures requiring written confirmation on all payroll system changes signed by both the Payroll Supervisor and Programmer are in place. We modified procedures on 5/15/91 to include an additional review of this confirmation. Personnel changes were made on 7/1/91 to ensure payroll system changes are correct and complete.

**B6-8 Leave Records and
Termination Pay**

State law requires the university to pay employees who terminate employment for their accumulated annual and sick leave. We tested seven employee termination payments and found two instances where the final termination amounts paid to employees were incorrect. In each instance, the university used incorrect accumulated leave balances. As a result, one employee was overpaid \$175 and the other employee was underpaid \$10.

The overpayment error occurred because the employee was the recipient of donated sick leave from the university's sick leave pool and the employee responsible for calculating the termination payment was new to the position. The underpayment occurred because university personnel incorrectly updated a calculation of accumulated sick and annual leave. The two errors may not have been made if the university had procedures for a supervisory review of leave payment calculations when employees terminate employment with the university. A supervisory review would be particularly beneficial for termination calculations performed by new employees and for complicated terminations such as when terminating employees receive donated sick leave.

Recommendation #B6-8

We recommend the university establish procedures to ensure termination payments are calculated correctly.

Response #B6-8

The university concurs with the recommendation. On 7/1/91 we implemented additional procedures which now require supervisory review and re-calculation of all termination payments.

Montana State University

Compliance with Federal Regulations

The Montana State University (university) receives federal financial assistance from several federal departments. We performed tests to determine the university's compliance with federal regulations applicable to programs. We identified several concerns which are discussed in the following five report sections.

B7-1 Federal Property Records

The university uses its Financial Records System (FRS) to manage and account for its capital equipment, which totalled \$45,232,213 at June 30, 1991. The system contains the detail records to support equipment amounts recorded on the state's Property Accountability Management System (PAMS) and the Statewide Budgeting and Accounting System (SBAS). The FRS equipment records maintained by the university do not identify equipment purchased partially with federal funds or equipment purchased with state funds used to match federal grants.

Federal regulations, OMB Circular A-110 (Attachment N), require the university to maintain property records to identify equipment purchased, in part or in whole, with federal funds. The property records should also identify the source of the property including the specific grant or other agreement numbers and the percent of federal participation in the equipment's cost. If the required information is maintained, federal regulations allow state agencies to include certain eligible equipment costs in its indirect cost calculation. Equipment purchased in whole or in part with federal funds or used as match for federally sponsored projects is not allowable and must be excluded from the equipment base used by the university in its indirect cost calculation.

Since the university does not adequately identify equipment purchased partially with federal funds or equipment used to match federal grants on its records, it cannot document the allowability of the equipment portion of its indirect cost rate. This could result in less indirect costs being recovered by the university. Grant and contracts personnel stated the property control records are not sufficient, and it would take considerable

time and effort to determine the exact amount of equipment which in the past was purchased partially with federal funds and equipment purchased with state funds and used to match federal grants.

The university should negotiate with the U.S. Department of Health and Human Services Division of Cost Allocation to determine the appropriate disposition for equipment included in the indirect cost plan from prior years. To comply with the federal regulation and to ensure continued receipt of indirect cost revenue, the university should begin to identify on the property records equipment partially purchased with federal funds. It should also identify equipment purchased with state funds and used as match for federal grants.

Recommendation #B7-1

We recommend the university identify on its property accounting system equipment used as match for federal grants and equipment purchased in part with federal funds.

Response #B7-1

We concur. MSU already does and always has identified property purchased with State or private funds which was used as match on Federal projects, on a project by project basis.

A change has been implemented to show such matching purchases to be specifically matching equipment for Federal projects in the PAMS property records. The recently revised project close-out checklist in Grants & Contracts also requires the identification of such matching equipment for documentation purposes and for the property management records.

B7-2 Matching System

The university does not have a procedure to ensure compliance with federal matching requirements. Federal regulations, OMB Circular A-110 (attachment E), require that all contributions, both cash and in kind, shall be accepted as part of the recipient's cost sharing and matching requirement only if they are verifiable from the recipient's accounting records.

We noted the university's procedures for monitoring grant match requirements does not include a provision to ensure that all funds used to match one federal grant are not used a second time to match another federal grant. Because the accounting records do not tie match expenditures to a specific federal grant, the opportunity for use of the same expenditure to match two or more federal grants exists. Thus, the match is not verifiable as required by federal regulations. Grants and contracts personnel indicated that during the audit period they did have a mechanism in place to ensure compliance with the federal regulation for personal service expenditures, but the system did not ensure compliance for all other types of expenditures.

We reported a similar concern in the prior audit report. University officials indicated the university established a subsystem as of July 1, 1991 which identifies each grant that requires a match and documents the expenditures used as matching funds. To ensure compliance with federal matching requirements, this subsystem must be supported by and reconciled to the accounting records to document that expenditures are used only once to match federal grants.

Recommendation #B7-2

We recommend the university establish a procedure to verify that all expenditures are used only once as match for federal programs as required by federal regulation.

Response #B7-2

We concur. MSU received the previous Legislative audit report in April 1990. At that time, a commitment was made to address and resolve the audit recommendation dealing with this topic, and our Audit Action Plan was developed and presented in June 1990. At that time, the project to develop an acceptable and appropriate tracking system was initiated.

We have complied with the previous audit recommendation. However, our matching funds tracking system for operational expenses and equipment was not implemented in time to be reviewed by the Legislative audit staff for this audit period. The complexity of the issue, associated with the lack of clarity about what was specifically required, took a longer period of time to resolve than we had anticipated. The task of writing computer programs to meet this need, in conjunction with meeting other priorities of the Grants and Contract program on an on-going basis, resulted in further delaying the completion of this project until July 1991.

It should be noted that this issue deals only with concerns about operational expenses and equipment used as match on Federal projects. The soft dollar matches for personnel services (approximately 90% of our matching requirements) have traditionally been recorded in the University Time & Effort system which has frequently been audited by our private, State, and Federal auditors, and accepted by all.

The full tracking system for matching operational expenses and equipment is now operating and has been discussed with the Legislative audit staff.

B7-3 Termination Leave Pool

The university does not charge federal grants for the cost of employee termination pay in accordance with federal regulations. The university established a termination leave pool to pay accrued employee vacation and sick leave benefits when research personnel, who work on sponsored projects, terminate employment. Federal regulations only allow the payment of fringe benefits such as vacation and sick leave if the costs are in proportion to the amount of time or effort actually devoted by

the employees. The federal regulation also requires the university to maintain records to support the cost of all charges to federal grant programs.

The university charges grants and contracts for the estimated cost of termination benefits paid to employees who work on federally sponsored projects. The university charges each federal grant or contract 1 percent of salaries for employees on a 10-month contract, or 4 percent of salaries for employees on an annual salary. University officials said, 1 percent is charged for employees on a 10-month contract because these employees are paid for only 25 percent of their accumulated sick leave at termination, while 12-month employees are paid 25 percent of accumulated sick leave and 100 percent of vacation leave.

For these termination costs to be allowable under the regulation the university should have cost records to support rates charged to the grants and contracts. The charges to sponsored projects should be the actual anticipated cost of the accumulated leave. University officials were not able to document whether the rate of 1 percent and 4 percent adequately recover or exceed termination leave costs.

University officials indicated the termination pool was established in 1984 to recover employee termination costs from the federal grants and contracts which generated the sick leave and vacation costs. The percentage charged to individual grants evolved over time as a combination of the amount the university personnel considered reasonable.

Recommendation #B7-3

We recommend the university document the cost basis for termination pool charges to grants and contracts.

Response #B7-3

We concur. The University has always maintained a complete and auditable system of record for personnel charges, including personnel record forms, payroll records, project financial reports, and Time and Effort reporting. What we are lacking is the written supporting documentation developed for the Federal Department of Health, Education, and Welfare and accepted by the Federal auditors in the early 1980's for the termination and retirement benefit pool rate structure. Despite the lack of written documentation for the charges to the pool, we have continued to follow the Federally approved methodology.

The termination and retirement benefit pool assessments are based upon the salaries charged to each sponsored project, regardless of funding source. We have historically attempted to maintain a pool of roughly 25% of the unfunded liability for compensated absences for sponsored research. We will recalculate and maintain supporting documentation for the termination and retirement benefit pool for future audit review.

B7-4 Change in Principal Investigator

The university notified the United States Department of Agriculture in April 1991 of a change in a grant project principal investigator that occurred in October 1990. Federal regulations require that grantees must notify the granting agency of all changes in key personnel. Notifying the grantor agency of changes in the principal investigators for a grant project could be very important to the grantor. The decision on whether to award the grant may have been based primarily on the reputation and credentials of the principal investigator. As a result, we question \$37,743 of expenditures charged to the grant (CFDA #10.200) for the time period beginning when the principal investigator changed in October 1990 until notification of the change was given in April 1991.

Grants and contracts personnel indicated they did not know a change in principal investigators required notification as long as the work on the grant was completed. However, since this issue was brought to the university's attention, it has established a new policy to ensure that federal sponsoring agencies are properly notified in writing of changes in principal investigators.

Recommendation #B7-4

We recommend the university properly notify the federal granting agencies when changes occur in key personnel as required by federal regulations.

Response #B7-4

We concur. Upon notification that a change in principal investigator had occurred without specific agency approval, the necessary request for written agency approval was initiated and subsequently received.

It should be noted that the decision of whether to award a grant or contract is not based primarily on the reputation and credentials of the principal investigator, as stated in the audit report. Rather, the grant proposals are subject to competitive peer review by the granting agency. Nonetheless, we recognize that compliance with the Federal regulations is of the utmost concern, and will continue to strive to ensure that such regulations are followed to the letter.

B7-5 Deficit Spending

During the current audit we noted three instances where the university spent moneys for grant programs prior to receiving the funding for those programs. The three examples resulted in cash deficits in the Grants and Contracts (G&C) accounts. Spending resources to fund G&C programs before securing funding sources causes cash deficits, and can result in increased use of state General Fund moneys if other funding sources do not materialize.

- First, the university spent the full amount of a grant from the National Science Foundation (NSF) CFDA #47.064 even though the university had not yet secured the necessary matching funds. As a result the grant account has a cash deficit of approximately \$22,000. G&C personnel indicated that several other sources are available to provide matching funds. However, the sources have not yet been identified.

- Second, the university has not received a \$1 million state match promised by the Governor in June 1989 to secure a \$7.5 million grant to the university from NSF (CFDA #47.069). As of September 1, 1991 the university spent \$1,537,946 of the federal funds without having the required matching funds. As a result the account for this grant has a cash deficit of \$224,015. G&C personnel stated the Governor's promise for funds was adequate to begin work on the grant project in 1990. As the project continues the university is providing the required match through deficit spending in anticipation of receiving funding from the Montana Science and Technology Alliance. As of April 1, 1992, this funding has not been received by the university.
- Finally, the university overspent a grant by \$1,470 without receiving prior approval from the grantor agency to exceed the authorized amount of the grant.

In the prior audit report we noted the university's management controls were not adequate to prevent deficit spending. During the current audit we noted improvements in the control system; however, the examples discussed above indicate continued improvement is needed to strengthen its financial management. Because the university is making improvements in addressing this issue, we make no recommendation at this time.

Response #B7-5

ITEM NO. ONE - The university has until the end date of the National Science Foundation (NSF) project, August 31, 1992, to fulfill the matching obligation. Though several matching fund sources were identified at the time the NSF project was awarded, the original option did not materialize by the end of the Legislative audit period, June 30, 1991, and a deficit balance of (\$22,041.97) was recorded for the project. Matching funds have been identified, which will fulfill our matching obligation.

ITEM NO. TWO - The NSF provided a five-year funded proposal to create an Engineering Research Center, based in part upon a written promise from the Governor to provide a one million dollar State match over that five-year period. MSU proceeded with the acceptance of the NSF monies and the creation of the Engineering Research Center, based upon that written commitment from the Governor. While the Governor's promise perhaps may not constitute a formal written contract in

the sense that we normally deal with, we believed that the commitment was sound, and that it was reasonable and prudent to proceed with the project.

ITEM NO. THREE - The principal investigator for this project received verbal authorization from the Montana Bureau of Mines and Geology to continue this funded investigation. Subsequently, written support documentation was received and funding has been provided.

Vocational-Technical Centers

B8-1 Questioned Matching Funds

The Office of the Commissioner of Higher Education (CHE) subgranted federal Carl Perkins (CFDA #84.048) funds to the centers for fiscal years 1989-90 and 1990-91. We reviewed the Carl Perkins expenditures during our audit of the five vocational-technical centers. We noted four of the five centers did not have documentation to ensure the state match directly benefited the Carl Perkins projects. For example, the Billings center used 100 percent of its student services program operating expenditures as state match for the Carl Perkins grant. The student services program includes some related Carl Perkins operating costs. However, student services also processes all student financial assistance. The Helena center has no allocation procedures and does not track any state match for Carl Perkins. Great Falls and Butte centers used their campus lease and bond payments as state match. The allowability of the bond payments as state match is addressed in the CHE section (issue B1-1) of this report. The Missoula center has a process to adequately document the state match for its Carl Perkins grants.

OMB Circulars A-102 and A-110 establish criteria for the allowability of cash and in-kind contributions made to satisfy cost sharing and matching requirements of federal grants. Generally, these circulars require that cost sharing or matching consists of project costs not borne by the federal government that are "necessary and reasonable for proper and efficient accomplishment of project objectives." Federal regulations specific to the Carl Perkins program (34.CFR 401.94) limit the federal share of most projects, services and activities to 50 percent. These regulations indicate the state share should benefit specific Carl Perkins projects, services or activities, or the state's overall Carl Perkins program.

Center personnel indicated they believed any vocational education expenditure could be used as state match for Carl Perkins grants. After reviewing the federal regulations and discussing cost sharing and matching requirements with U.S. Department of Education officials, we determined that costs claimed as match must benefit the federal program being matched. The centers

and the Commissioner of Higher Education have claimed state match which does not directly benefit the Carl Perkins program.

We believe the centers have some allowable costs which benefit the Carl Perkins program and have not been claimed or documented as match. CHE personnel should monitor the centers' state match to ensure allowability. Although the Carl Perkins program no longer requires matching funds after June 30, 1991, other federal programs may require state match. CHE should provide guidance to the centers regarding the allowability and required documentation necessary for each federal program that requires state match.

Recommendation #B8-1

We recommend the Commissioner of Higher Education assist the centers in establishing systems to ensure the state match is met as required by federal programs.

Response #B8-1

Do Not Concur.

The Office of the Commissioner of Higher Education believes that we have, to the best of our ability, complied with this recommendation. The Montana State Legislature appropriated Carl D. Perkins Vocational Education Act (P.L. 98-524) funds into the base operating budgets of the five vocational technical centers during the audited period. This was contrary to the advice and public testimony of the sole state agency, the Board of Regents. It was the Legislature's judgment that such general use of Perkins funds was acceptable. Therefore, use of any appropriated state funds in support of vocational technical education by those five agencies is legitimate as match. (The 1991 Legislature removed Carl Perkins funds from the 1993 biennium base operating budgets for the vocational technical centers.)

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Additionally, the Office of the Commissioner of Higher Education provides technical assistance in the form of manuals, memo, visitations, and phone calls to all recipients of Perkins funds, including the vocational technical centers. Advice concerning the appropriateness of state matching funds was provided to the vocational technical centers and other Perkins recipients.

B8-2 Excess Student Financial Assistance Awards

The centers participate in the following federal student financial assistance programs: Pell Grants (CFDA #84.063), College Work-Study (CWS) (CFDA #84.033), State Student Incentive Grants (SSIG) (CFDA #84.069), Supplemental Educational Opportunity Grants (SEOG) (CFDA #84.007) and Stafford Loans (CFDA #84.032). All of the programs, except Pell, are considered campus based aid.

These financial aid programs are awarded based on students' financial need. Financial need is the difference between the student's cost of attendance and the student's ability to pay those costs. The center analyzes and determines each student's need as follows:

Cost of attendance	XXX
Less expected family contribution	(XXX)
Less other resources	<u>(XXX)</u>
Financial need	XXX

The cost of attendance is an estimate of the student's educational expenses for the year. The cost of attendance includes expenses such as tuition and fees, room and board, transportation, and books.

Students may also receive Vocational Rehabilitation (voc-rehab) assistance from the Department of Social and Rehabilitation Services (SRS) or Job Training Partnership Act (JTPA) payments from the Department of Labor and Industry (DOLI) to pay for expenses. We noted instances where the centers awarded financial aid in excess of the student's need.

1. We reviewed financial aid files of ten students at the Billings center who were receiving JTPA or voc-rehab

assistance during fiscal year 1990-91. One student was overawarded \$941 because the center failed to include JTPA assistance in calculating financial need. Because federal regulations permit overawards up to \$200 per student for campus-based financial aid, we question costs of \$741 in fiscal year 1990-91.

Center accounting personnel stated when payment is received from JTPA or voc-rehab for the student's tuition and fees, the financial aid office is notified. However, financial aid personnel stated they do not have the time or staff to recalculate the student's financial need prior to financial aid disbursements.

2. At the Butte center we reviewed five student financial aid files, two of which concerned students who received voc-rehab. The financial need calculations for these students did not include the amount received from voc-rehab as financial assistance. To determine the extent of overawards we obtained a list of all voc-rehab and JTPA recipients and recalculated financial need. In fiscal year 1989-90, seven students received overawards totalling \$4,022. In fiscal year 1990-91, four students received overawards totalling \$2,689. Because federal regulations permit overawards up to \$200 per student for campus-based financial aid, we question costs of \$2,622 and \$1,889 in fiscal years 1989-90 and 1990-91, respectively.

Center personnel stated it is difficult to identify which students are receiving voc-rehab and JTPA, because the determination process occurs at the same time for voc-rehab, JTPA and the centers' financial aid. Personnel also stated federal regulations will hold the institution accountable for additional resources which accrue to the student after financial aid is determined, but monetary exception could not be taken against the center if the resource was unexpected. Due to the nature of vocational training, the center should expect students to receive voc-rehab and JTPA assistance.

Federal regulations require institutions to coordinate federal and nonfederal student financial aid and to establish controls to preclude the awarding of assistance in excess of student's financial needs. The U.S. Department of Education issued a letter in January 1992 that outlines the requirements for coordination of student financial aid and voc-rehab benefits. CHE should assist Billings and Butte in establishing systems to include JTPA and voc-rehab in the student financial need calculation. The centers

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should coordinate with other financial aid programs to ensure student's financial aid awards are based on financial need.

Recommendation #B8-2

We recommend the Billings and Butte Vocational-Technical Centers work with the other centers to implement a system to ensure Vocational Rehabilitation and Job Training Partnership Act assistance is considered in determining the student's financial need.

Response #B8-2

Billings: The Center concurs with this recommendation and will contact the other centers in a timely manner to inquire as to their procedures in tracking agency funding when determining financial need.

Butte: Concur.

The Financial Aid Officer implemented a plan commencing with Fall Semester 1991, to include all resources in determining a student financial need. All agencies have been notified to inform the Center's business and financial aid offices of resources to pay for educational costs one week prior to registration. Coordination between the agencies and Center during FY 92 was very rewarding.

The Financial Aid Officer also implemented policy effective Fall Semester 1991, to distribute Stafford Loans 30 days subsequent to the commencement of the semester. This procedure should eliminate the problem of overawards.

The vocational-technical system Financial Aid Officers are currently in the process of scheduling a meeting this summer to devise and coordinate a plan to assist the centers in controlling agency overawarding.

B8-3 Federal College Work-Study

While testing a sample of student financial aid files we noted an instance at the Butte center where financial aid was awarded in excess of financial need documented in the student file. The student was originally awarded a Pell Grant and state College Work-Study (CWS) to meet the student's financial need. The center then paid \$1,210 of federal CWS which was not documented on the award letter or in the student's file. Based on documentation in the student's file, the federal CWS disbursement appears to be an overaward of \$807.

Center personnel stated the student's budget should have been adjusted to include summer room and board, which is allowable under federal regulations. The federal regulations do allow this adjustment, but the regulations require this change to be fully documented in the student's financial aid file. In this case the center did not document the adjustment in the file.

Recommendation #B8-3

We recommend the Butte Vocational-Technical Center award financial aid based on the financial need as documented in the student's file.

Response #B8-3

Concur.

All summer work-study awards have been documented correctly and accurately as of July 1, 1991.

Federal Compliance

The Great Falls Vocational-Technical Center participated in the following federal student financial aid programs: Pell Grants (CFDA #84.063); Stafford Loans (CFDA #84.032); College Work-Study (CWS) (CFDA #84.033); Supplemental Educational Opportunity Grants (SEOG) (CFDA #84.007); and State Student Incentive Grants (SSIG) (CFDA #84.069). In addition to these

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programs, the center received Federal Project Bridge (CFDA #84.078) and federal Vocational Education - Basic Grants to States, or Carl Perkins (CFDA #84.048).

B8-4 Cash Management

The Great Falls center requests cash from the U.S. Department of Education to finance its student financial aid disbursements and the expenditures for the Federal Project Bridge. These cash draws are made through an electronic funds transfer system. Federal guidelines require the center to disburse funds received through this system within three working days of receipt. To comply with this requirement, the center should restrict its requests to meet its current cash needs.

The center maintained excess cash balances in the Pell Grant, CWS, SEOG, and the Federal Project Bridge accounts during the four months tested. The following table outlines the number of days used by the center to disburse the cash draws we tested.

<u>Disbursement of Federal Cash Drawdowns</u>		
<u>Grant Program</u>	<u>Draw Amount</u>	<u>Days to Disburse</u>
Federal Project Bridge (CFDA #84.078)		
November 1989	\$ 15,000	22
January 1990	15,211	28
October 1990	8,000	20
March 1991	8,000	17
Pell Grant (CFDA #84.063)		
November 1989	136,388	10
January 1990	145,556	38
October 1990	231,483	8
March 1991	68,212	6
CWS (CFDA #84.033)		
November 1989	3,000	14
January 1990	2,000	9
SEOG (CFDA #84.007)		
January 1990	4,550	10
Source: Compiled by the Office of the Legislative Auditor.		

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Excess federal cash was an issue addressed in the center's past two audit reports. In fiscal year 1989-90, the individual responsible for estimating cash was new to the center. Consequently, this individual was not familiar with cash estimation procedures. Center personnel stated they modified their cash estimation process during fiscal year 1990-91 and again in fiscal year 1991-92 to allow them to more closely match cash requests to their cash needs. The center should continue to improve its cash estimation process to ensure disbursement of federal cash, obtained through the electronic funds transfer, is made within three working days of receipt.

Recommendation #B8-4

We recommend the Great Falls Vocational-Technical Center continue to improve its cash estimation process and disburse federal funds within three working days of receipt.

Response #B8-4

Concur. The Center is currently requesting federal cash on a biweekly basis to coincide with the state payroll function. Further, a form is being developed to more closely estimate federal cash demands and provide a better audit trail of federal cash balances.

B8-5 Carl Perkins Expenditures

The Great Falls center established its Occupational Therapy program through an approved project of the Carl Perkins program (CFDA #84.048) in fiscal year 1989-90. A second project in fiscal year 1990-91 expanded the program. As part of the fiscal year 1990-91 project, the center was allowed to hire an additional occupational therapy instructor.

During June 1990, the center advertised for an instructor for the 1990-91 academic year through a regional newspaper. The advertising services were performed and a bill received by the center in June 1990. Although the transaction was complete in

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fiscal year 1989-90, center personnel recorded advertising costs of \$583 in fiscal year 1990-91 as a current year expenditure of the Occupational Therapy project.

Federal regulations state that costs incurred prior to the effective date of an agreement (preagreement costs) are unallowable unless approved by the sponsoring agency. Approval to incur pre-agreement costs for the fiscal year 1990-91 project was not obtained from the Office of the Commissioner of Higher Education (CHE) until after we brought it to their attention. Approval was obtained May 6, 1992, ten months after the close of the project year.

Agency personnel indicated that since the advertising for the faculty position was related to the fiscal year 1990-91 Occupational Therapy project, they waited until fiscal year 1990-91 to charge the costs. Agency personnel were unaware that costs incurred prior to the effective date of a grant are allowable only when approved by the sponsoring agency. The center should request approval for all preagreement costs.

Recommendation #B8-5

We recommend the Great Falls Vocational-Technical Center seek approval for all preagreement costs.

Response #B8-5

Concur. The Center will obtain approval for preagreement costs.

B8-6 Purchasing

Title 18, chapters 4 and 7, MCA, establish statutory parameters for purchasing supplies, equipment, certain services, and printing. State law gives the Department of Administration authority to adopt rules consistent with state law governing procurement of any and all supplies and services for the state.

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The Department of Administration's Procurement and Printing Division (central purchasing) has delegated limited purchasing authority to the Helena center. The center may purchase certain items estimated to cost less than \$2,000 or several like items with a combined total of less than \$2,000. Items costing greater than \$2,000 must be submitted to central purchasing. The center frequently by-passes central purchasing for items costing greater than \$2,000. The following are examples of instances where the center did not comply with the delegated purchasing agreement.

- On June 27, 1990 the center purchased a training lathe and a lathe chuck for a total purchase price of \$24,275. Because \$24,242 of this purchase was charged to the Carl Perkins program (CFDA #84.048), we question its allowability.
- On June 6, 1990 the center purchased six oscilloscopes. Each oscilloscope cost \$2,545 for a total cost of \$15,270.
- On June 21, 1990 the center purchased a panel system for its main office. The total cost was \$14,223.
- On June 13, 1991 the center purchased ten analog-digital trainers. Each trainer cost \$330 for a total cost of \$3,300.
- On April 26, 1991 the center purchased five televisions and five video cassette recorders for the electronics program. Each television cost \$265, and each video cassette recorder cost \$244 for a combined total of \$2,545.
- On December 9, 1989 the center purchased fifteen computer software upgrades and ten computer software programs. The total purchase price was \$2,115.

Center personnel stated their interpretation of the \$2,000 limit of their delegated authority agreement applied to the unit cost of each item. State purchasing regulations clearly require that like purchases be aggregated when determining the applicability of the delegated purchasing authority limit. The reason they purchased items above their delegated authority in June was because they missed the fiscal year-end cutoff date required by central purchasing. The cutoff date for year-end purchase orders varies for different items and is stated in state policy.

The errors noted above document a pattern of noncompliance with purchasing requirements. Center management should

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instruct its staff to read the purchasing laws and regulations and comply with applicable regulations for each purchase. By not complying with state purchasing requirements, the center may be paying more than necessary for supplies, equipment, and certain services. The center should comply with the delegated purchasing authority agreement and submit purchases in excess of \$2,000 to central purchasing. Also, the center should establish procedures to predict year-end purchases and submit necessary information to central purchasing prior to the year-end deadline.

Recommendation #B8-6

We recommend the Helena Vocational-Technical Center comply with state purchasing laws and regulations.

Response #B8-6

Concur. A more thorough review has been implemented during FY92 that will assure compliance. It should be noted that in previous cases three price quotes were requested to assure the best price was received.

B8-7 Federal Reporting

Federal regulations require that all student financial aid (SFA) reports be supported by the reporting agency's accounting system. The Helena center submits reports to the U.S. Department of Education each fiscal year. These reports identify how much of each type of financial aid the center distributed to students. We noted several instances where the center's accounting records did not support the amounts reported on the federal reports. Two examples are as follows:

- In fiscal year 1989-90 the center recorded \$370,106 of Pell Grant (CFDA #84.063) awards on the accounting records. When the center tried to reconcile the financial aid records with the accounting records they were unable to reconcile \$1,183. We were unable to determine the correct amount of Pell Grant awards.
- The center records College Work-Study (CWS) (CFDA #84.033) expenditures in one accounting entity, then

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allocates them to the proper accounting entity at a later date. At the end of fiscal year 1990-91 center personnel forgot to allocate \$5,975 of these expenditures. CWS expenditures reported to the federal government were understated by \$5,975.

The center should implement review procedures to ensure federal reports are supported by its accounting records.

Recommendation #B8-7

We recommend the Helena Vocational-Technical Center implement review procedures to ensure the federal financial aid reports are supported by accounting records.

Response #B8-7

Concur. The HVTC is implementing review procedures to ensure the federal financial aid reports are supported by accounting records.

